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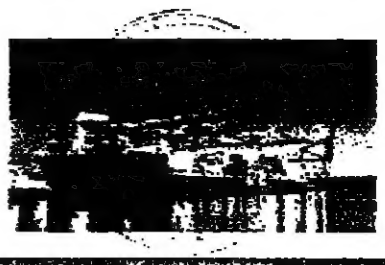

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TUESDAY JUNE 4 1996

Juppé promises cuts in French tax and spending

French prime minister Alain Juppé pledged to cut income tax progressively over five years and to spread the burden of France's costly welfare system more widely. He said the plan would involve lowering all income tax brackets, creating a new universal health insurance charge and reforming the "professional tax", levied on companies' wage bills and investments. Page 18

Index suggests strong growth for US: The US index of leading indicators rose for the third consecutive month in April, suggesting the economy will grow robustly in coming months. Page 5

Spain targets public works for cuts: New public works contracts will bear the brunt of spending cuts totalling Pta200bn ($1.56bn) by Spain's new centre-right government. Madrid is seeking to get back on track to meet the Maastricht criteria for the European single currency. Page 3; Danes join Emu elite on budget deficits, Page 2

UK cleared to join arms agency: French and German leaders gave the go-ahead for Britain to join their new joint arms procurement agency, UK defence secretary Michael Portillo said. Page 2

German insolvencies rise: The number of corporate insolvencies in Germany increased 14.1 per cent in the first quarter this year, compared with the same period in 1995. Page 2

Dalgety issues profits warning: Dalgety made the first BSE-related profits warning by a large UK public company since the EU banned exports of British beef in late March. In addition, a neurological disease in Dutch cats has also hit its profits. Page 19; Minister opens full defence of BSE measures, Page 8

Crédit Foncier investors may rebel: Minority shareholders in property bank Crédit Foncier de France, concerned at large losses reported in the provisional 1995 accounts, believe they may have amassed enough voting power to block approval of the group's accounts at its annual general meeting. Page 19

Awards for FT journalists

John Plender, a senior feature and leader writer for the Financial Times, and Tim Laxton, a freelance journalist, were last night commended in the British Media Award, presented by the Foreign Press Association in London, for their joint article on Matrix Churchill's nuclear links with Iraq. The main award, sponsored by Mercury Communications for the best foreign story by a UK journalist based overseas, was won by Robert Fisk of The Independent for a series of articles on Algeria.

Mobil reorganises top management: Mobil, the leading US energy multinational, announced a top management shake-out intended to complement the deep-seated operational restructuring under way in the group. Page 19

Poll boosts Yeltsin's hopes: President Boris Yeltsin's bid for re-election received a psychological boost yesterday when an opinion poll with a reputation for independence put him on par with his Communist rival. Page 2; Yeltsin ally voted out, Page 18

HK shipping chief may seek top post: Shipping magnate Tung Chee-hwa resigned from Hong Kong's executive council, fuelling speculation that he will compete for the job of chief executive of the colony after its handover to China next year. Page 7

Ideological rift at UN conference: The ideological battle lines at the opening sessions of the United Nations' conference on urban development fell between western countries and mainly Islamic and Asian countries alarmed by demands which they see as undermining development. Page 4

Venezuela agrees IMF deal: Venezuela agreed a memorandum of understanding with the International Monetary Fund over economic stabilisation, paving the way for final approval of a $1.4bn standby loan later this month. Page 5

Lisbon scores own goal on soccer tax: Portugal's finance ministry was forced to announce that finance minister António Sousa Franco would stay at his post after reports that he had offered to resign in protest over a scheme to relieve football clubs of tax arrears. Page 3

Canova statue found: A statue of Cupid by Antonio Canova was found discarded in a west of England garden. It is expected to fetch at least £1m ($1.52m) at auction.

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	5,628.55	(-15.53)
NASDAQ Composite	1,242.1	(-1.9)
Europe and Far East		
CAC40	2,121.1	(+11.04)
DAX	2,532.83	(-9.97)
FT-SE 100	3,739.2	(-8.6)
Nikkei	21,588.52	(-367.67)

US LUNCHTIME RATES

Federal Funds	5$\frac{7}{16}$%
3-mth Treas Bills: Yld	5.194%
Long Bond	87$\frac{11}{16}$
Yield	6.982%

OTHER RATES

UK: 3-mo Interbank	6$\frac{1}{32}$%	(6$\frac{1}{16}$%)
UK: 10 yr Gilt	95$\frac{12}{16}$	(95$\frac{1}{2}$)
France: 10 yr OAT	105.21	(105.14)
Germany: 10 yr Bund	98.05	(98.02)
Japan: 10 yr JGB	99.0652	(98.8852)

NORTH SEA OIL (Argus)

Brent Dated	18.26\frac{1}{2}$	(18.10)

GOLD

New York: Comex		
(Aug)	$393.6	(394.4)
London:		
close	$391.35	(392.25)

DOLLAR

New York: lunchtime		
£	1.5585	
DM	1.5280	
FFr	5.1675	
SFr	1.25	
Y	108.235	
London:		
£	1.5483	(1.5494)
DM	1.5265	(1.5275)
FFr	5.1707	(5.1765)
SFr	1.2493	(1.2523)
Y	108.285	(108.1)

STERLING

DM	2.365	(2.3688)
Tokyo close:		Y 108.3

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.85	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65
Cyprus	C£1.20	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc60	India	Rs75	Nigeria	Naira80	Spain	Pta250
Denmark	DKr18	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Estonia	EKr 22	Japan	Y500	Pakistan	Rs40	Syria	S£65.00
Finland	FM15.50	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
France	FFr11.50	Kuwait	Fils.650	Portugal (m'land)	Es240	Turkey	L80,000
		Lebanon	LL3,000			UAE	Dh12.00

Deal with US follows pressure from France

Europe secures greater role in Nato operations

By Bruce Clark in Berlin

The US yesterday agreed to give its European allies in Nato a greater role in organising military operations, but differences over the long-term future of European defence remained.

In a hard-won compromise at a Nato foreign ministers' meeting in Berlin, the US conceded that its European allies should enjoy "political control and strategic direction" of missions they run.

Under the agreement, Nato may supply military forces and equipment to the 10-nation Western European Union, the defence grouping emerging as the security arm of the European Union.

But it was also agreed that the use of Nato forces in operations would need approval from all 16 members of the Atlantic alliance, and the US-led bloc would "keep under review" the way its assets were being deployed.

Mr Warren Christopher, the US secretary of state, called the agreement an "important change", leading to "a Nato in which the Europeans can take greater responsibility if they want to".

France, the strongest advocate of European self-sufficiency in defence, hailed as a victory the removal of a clause that would have entitled Nato to "oversee" or "supervise" European-only operations.

Mr Hervé de Charette, France's foreign minister, also described as "historic" the agreement to identify headquarters and command structures within Nato that could be used for European-only operations.

But he made clear that France, which pledged six months ago to move closer to Nato's military wing, would not fully rejoin the alliance's military structure until it was certain that Nato reform was under way and irreversible.

Mr de Charette described yesterday's agreement as a first step towards fulfilment of France's ambition to equip Europe with the capacity to project military power and mount a wide range of operations by 2000.

However, Mr Malcolm Rifkind, the UK foreign secretary, laid out a more modest agenda for WEU operations, saying Nato assets would "occasionally" be used by the European defence club for low-level military tasks.

"I don't see any serious possibility that the WEU could be suitable to carry out a serious, combat-related task," he said.

Mr Rifkind said the WEU's role would be concentrated on missions of humanitarian relief, search-and-rescue and low-intensity peacekeeping missions. Nato officials also stressed that the use of the alliance's equipment for WEU operations would be the exception rather than the rule.

Aides to Mr Christopher said the US would usually want to be directly engaged in handling any serious security problems that arose in Europe.

"The US will continue to be involved in all the crises Nato will face in the future," said Mr Nicholas Burns, the State Department spokesman. "The US considers itself to be a European power."

Mr de Charette hinted strongly that France had extracted concessions from the US by threatening to block Nato enlargement – a proposal strongly backed by the State Department and Pentagon.

"I don't see how enlargement could progress on the basis of a rejection of France's proposals," he said.

The French minister wants the appointment of a European deputy to the US general who commands Nato forces in Europe.

However, this proposal, which has also been floated by some British officials, is viewed with suspicion by General George Joulwan, the Nato commander in Europe.

Palestinian leader Yassir Arafat (centre) arrived in London on the first day of his two-day visit to the UK where he will hold talks with prime minister John Major Pressure on Netanyahu, Page 18 Reuter

UK steps up veto policy in EU over beef ban

By Caroline Southey and Lionel Barber in Luxembourg and James Blitz in London

The UK stepped up its campaign of non-co-operation in the European Union yesterday, blocking eight ministerial decisions including measures to combat fraud and racism.

The British vetoes came just before a meeting of EU farm ministers to consider a partial lifting of the export ban on British beef. UK hopes that the embargo would be eased rose as Spain said it would vote in favour, leaving Germany leading six countries opposed to lifting the ban.

Mrs Loyola de Palacio, the Spanish farm minister, said she had been won over by the document tabled by Mr Douglas Hogg, the agriculture minister, on measures the UK is taking to eradicate mad cow disease.

The vote on lifting the ban on beef by-products – gelatine, tallow and semen – turned on the intentions of Belgium, Luxembourg and the Netherlands. The European Commission hoped that it could muster the necessary qualified majority to ease the ban.

The UK's policy of non-co-operation is widely viewed as complicating its effort to win support for a phased lifting of the embargo. Mr Malcolm Rifkind, foreign secretary, will today begin a tour of European capitals to present the UK case.

Mr Ivan Yates, the Irish agriculture minister, warned that Britain's stance could backfire. "It must get to the point where the resistance from continental member states is that they get as bloody-minded as the British."

Mr Karel van Miert, the Belgian competition comissioner, described UK policy as "completely idiotic".

Mr Kenneth Clarke, the chancellor, blocked three decisions at the meeting of EU finance ministers: a draft response to Lebanon on financial assistance; support for the Bosnian elections; and an initiative for EU fraud inspectors to carry out spot-checks in mem-

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Minister opens defence, Page 8

Japanese mortgage lender fails with $3bn debts

By Gerard Baker in Tokyo

Eighth financial institution to collapse in 18 months

Another large Japanese financial institution collapsed yesterday under a pile of bad debts, highlighting the continuing fragility of the country's banking system.

Shin Kyoto Shinpan, a consumer finance company based in Kyoto, filed for bankruptcy with debts of Y350bn ($3.23bn). The news upset financial markets, unnerving equity investors and reawakening fears of a chain of failures at smaller banks and financial institutions.

It was the seventh-biggest bankruptcy in postwar Japanese history and the eighth big financial institution to collapse in less than 18 months.

Bank of Japan officials attempted to play down the significance of the failure, pointing out that most of the company's creditors were the much larger and stronger national banks, not the deeply-troubled second-tier regional banks and credit associations.

But the collapse will focus attention again on the poor health of the so-called "non-bank" financial sector. It comprises several hundred institutions – such as Shin Kyoto – that undertook a range of risky lending and other activities during the bubble economy of the late 1980s.

These companies derive their funds entirely from other financial institutions. They have virtually no depositors and very little capital. Thus, if they fail, the losses can be very high and must be borne entirely by their creditor banks, to which the non-banks are often closely tied.

Shin Kyoto's main creditors are Nippon Credit Bank, Sanwa Bank, Industrial Bank of Japan and Hokkaido Takushoku Bank – all among the country's 20 biggest banks. The sums involved for each bank are relatively small, but the wider concern about cumulative problems in the financial system was reflected in heavy selling of all bank shares on the Tokyo stock exchange.

Several leading banks saw their share prices fall by up to 3 per cent yesterday, and the Nikkei index of 225 leading stocks closed down 367.7 points, or 1.7 per cent, at 21,588.

Shin Kyoto specialised in the mortgage guarantee business in western Japan.

The company grew rapidly in the late 1980s as property prices in the Kyoto and Osaka region soared and a growing number of house buyers rushed to cash in on the rising market.

But with the collapse of land values in the last five years, mortgage defaults increased sharply, gradually submerging the company under a pile of guarantees and bad loans. Two-thirds of the company's debts are related to guarantees.

The problems at the non-bank institutions have been largely overshadowed in the last year by the bad loans at the nation's banks and housing loan companies.

In February, Equion, another non-bank finance company, failed with debts of more than Y300bn.

Martin Wolf, Page 16

Athens attacked for work on Bosnian Serb telecom project

By Kerin Hope in Athens and Harriet Martin in Sarajevo

Greece's state telecoms company, OTE, is designing a DM400,000 ($263,000) telecommunications network for the self-styled Serb "republic" in Bosnia that would provide civilian and military links with Belgrade but none with the rest of Bosnia-Hercegovina.

OTE will pay for the plan, which was requested by the Bosnian Serb PTT, the telecommunications authority.

It has no connection with a European Bank for Reconstruction and Development $80m reconstruction project for the whole of Bosnia's devastated telecoms network.

Mr Carl Bildt, the international community's representative in Bosnia, is understood to have protested to the Greek government about OTE's plan.

Reconstruction officials say the involvement of OTE with the Serbs is against the spirit – though not the letter – of the Dayton peace agreement as all aid under the reconstruction programme agreed at Dayton is geared towards reintegration of the country.

OTE said the company was working "in accordance with the terms of the Dayton accord. For instance, we refused the Bosnians' request to help them get an international dialling prefix on the grounds that that amounted to separatism".

But OTE's involvement with the Bosnian Serb PTT is an embarrassment for Mr Costas Simitis, the Greek prime minister. Mr Simitis has been trying to overcome Greece's pro-Serbian image and build a constructive policy in the Balkans.

OTE's board of directors approved the project despite objections from several members that it was not among priorities outlined to potential investors when 8 per cent of OTE was listed on the Athens stock exchange in March in the first flotation of a Greek utility.

One Athens-based consultant said: "The Bosnian Serb PTT is in bad shape because most of their senior technical people have emigrated. The people left behind feel they can trust their friends from OTE to fill the gap and design a system that will be secure and independent from the rest of the country."

OTE's plan would cover renewal of the Bosnian Serbs' fixed-wire network, including construction of two fibre-optic cable links between Pale and Banja Luka and Belgrade, mobile telephony and a satellite link for international calls.

Meanwhile, Hellascom, a joint venture between OTE and two of its main suppliers, is one of six groups that have expressed interest in setting up a GSM mobile telephone network for the Bosnian Serbs, a project that would be privately financed.

The EBRD is encouraging cellular telephony projects as a short-term measure in Bosnia-Hercegovina where some 30 per cent of the fixed-wire network has been destroyed.

CONTENTS

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Havel tries to broker new coalition

By Vincent Boland in Prague

President Václav Havel yesterday met leaders of the four main Czech political parties in an attempt to break the stalemate created by an inconclusive general election.

He said it would be "optimal" for Mr Václav Klaus's outgoing coalition, which lost its majority, to try to form a new government. But, hinting at the compromises now facing political leaders, he said such a task would be "unthinkable" without opposition support.

The political deadlock caused share prices to tumble and the currency to fluctuate sharply as investors took fright at the prospect of weeks of instability in a country vaunted until the weekend for the predictability of its politics.

Mr Klaus's three-party centre-right coalition won 99 seats in the 200-member parliament, 13 fewer than in the previous parliament, in spite of gaining more votes. The opposition Social Democrats (CSSD) won 61 seats (24 previously), the far-left Communists 22 (35) and far-right Republicans 18 (14).

Mr Havel said the CSSD's co-operation would be essential in the formation of any new government. But Mr Milos Zeman, its leader, was still withholding his support yesterday. After meeting the president he said a new government led by Mr Klaus "would not be in the best interests of the country". The deep animosity between the two men has led to speculation that Mr Zeman will only support a centre-right government if Mr Klaus is not premier.

The Prague bourse's PX 50 index closed more than 4 per cent lower yesterday mainly on selling pressure from domestic investors. The koruna tumbled nearly 2 per cent against the US dollar and the D-Mark in early trading but recovered later.

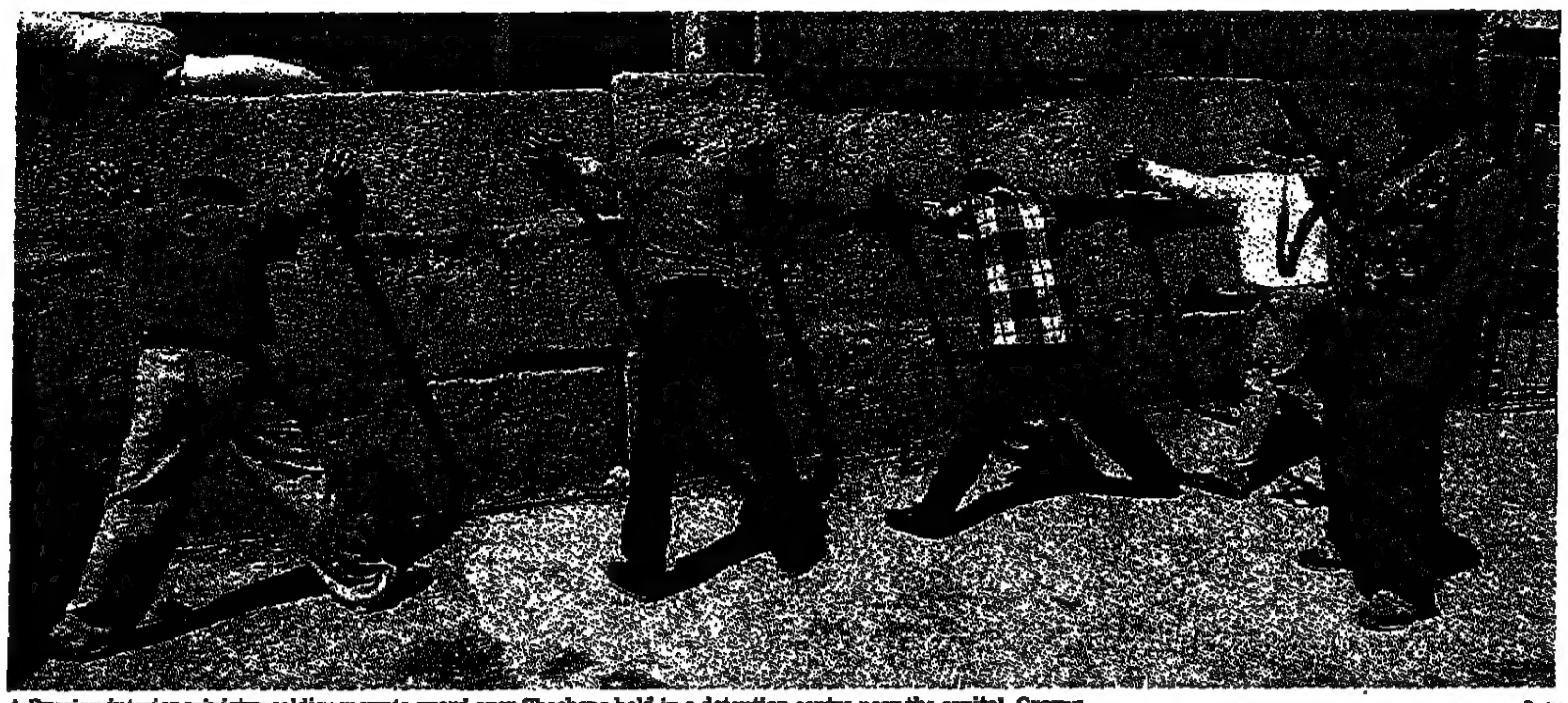
Banking shares were hit particularly, with Komercni Banka, the leading commercial bank, falling more than 10 per cent as investors feared that plans to cut the state's large stake were now on indefinite hold. SPT Telecom, which is majority state-owned, fell 8 per cent.

Share prices and the currency had been stable before the election on the widely-held assumption that Mr Klaus would secure a new majority. Analysts said the inconclusive outcome was "the worst result possible" from the election. The koruna, already drifting as the country's trade deficit widens, was vulnerable to selling pressure, they said.

Bankers expressed the view that the prospect of a new government without Mr Klaus at its helm would damage the Czech Republic in the eyes of foreign investors, at least initially. "There would be much more caution among portfolio investors, but it would not necessarily matter to industrial investors," said Mr Zdenek Bakala, chairman of the investment bank Patria Finance.

Intensive negotiations are expected to begin this week on forming a new government, with Mr Havel playing a crucial mediating role. "It is within our capabilities to reach a consensus but it requires further negotiations," he said.

The president added that as soon as the government tendered its resignation he "will ask a person to form a government and name him prime minister". He quashed speculation that he might create an interim technocratic government before calling a new election. "I don't consider that a good solution," he said.



A Russian interior ministry soldier mounts guard over Chechens held in a detention centre near the capital, Grozny *Reuter*

Chechnya shrugs off Yeltsin 'victory'

Russia's writ does not run far beyond the capital, writes **Chrystia Freeland**

Inside the heavily fortified Severnyi airport, headquarters of the Russian army in Chechnya, barbed wire and camouflage netting vie for space with cheerful election posters declaring that "Boris Yeltsin is the President of All Russians" and bright photographs of the smiling, bouffant-haired leader himself.

But just a few miles beyond the Russian soldiers and tanks which guard the entrance to the airport, Mr Yeltsin's slick campaign advertisements give way to a rougher brand of political agitation. Graffiti on the one remaining wall of a bombed-out barn declare: "Chechnya is a subject only of Allah." The skeletal remains of a farmer's house nearby insist: "Russian occupiers out of Chechnya!"

The contrast between the posters in the airport and the slogans in the countryside which surrounds it is as great as the gap between Russia's official rhetoric about Chechnya and the real situation in a republic which has fought tooth and nail for independence.

As part of his bold and energetic efforts to win re-election, Mr Yeltsin last week declared victory in the Chechen war and signed a ceasefire with rebel leaders. And now that the battle has officially been won, the Russian-installed local administration has been assigned the quixotic task of persuading a people battered by Moscow's armies for 18 months to exercise their rights as Russian citizens and participate in the June 16 vote for a new Russian president.

But, in the village of Gekhi, less than an hour's drive from Grozny, the Chechen capital, locals say there will be no voting there.

"No matter what Yeltsin's marionettes in Grozny [the Russian-backed local government] say, there will be no elections here," says Mr Doku Makhaiev, a bearded 41-year-old carpenter who is now the commander of separatist forces in the south-western region of Chechnya. "We will not vote for a Russian president; he is the leader of a foreign country."

Gekhi, just 3km from a Russian military checkpoint, is a good example of the frustrations which Moscow has encountered in Chechnya. Although Russian forces have nominally won control of the entire republic, in the quicksands of intense local support for the rebels the Kremlin has discovered that its victories can vanish almost as soon as its troops move on to the next village.

That is clearly the case in Gekhi, whose openly-armed people proudly insist that Moscow, and the pro-Russian local government it has established in Grozny, have no authority over their village. Mr Said Aidamirov, the pro-independence head of the local administration, says that even the pro-Russian police force and tax inspectors are not welcome in Gekhi.

"Yesterday, the tax inspectors came to collect taxes," Mr Aidamirov said. "I told them to get out of here. As long as they are Moscow traitors, let them collect their taxes in Moscow."

As for elections, Mr Aidamirov categorically insists that there will be none. "If we hear that someone wants to commit voter fraud and pretend that there have been elections here, we will arrest him and take him to the bunkers of Bamut [a Soviet-built nuclear shelter controlled by the separatists] for the duration of the war."

In Gekhi's marketplace, a ramshackle collection of kiosks on the side of the dirt road that runs through the village centre, the mood is equally adamant.

"We will never vote for Yeltsin; he is destroying us," says Mrs Zara Banaieva, a gold-toothed 43-year-old selling bread, cigarettes and soft drinks from a small booth. "I would rather kill myself than vote for Yeltsin. Why is he killing us? Because we want to live in freedom? Is that a reason to kill someone?"

Her neighbours nod their agreement, and it quickly becomes apparent that this quiet, hillside town is wholeheartedly involved in a war which Moscow says is being waged by a handful of "criminal bandits".

Mrs Tamara Shovkhalova, whose stall is next to Mrs Banaieva's, says her husband is in the mountains fighting on the side of the rebels.

Valid, a 26-year-old man who strolled over to buy a Coke with a machine-gun casually draped across his shoulder, is himself a separatist fighter, who has come home to visit his mother for a few days and help out on the farm. Even Madina, a shy, slender, 20 year-old woman, whose head is draped in the traditional Chechen head-scarf, has been fighting alongside the men in the hills and has returned to Gekhi for a few weeks to recover from a wound in her arm.

But in Grozny, in the small cluster of buildings surrounded by sand bags, barbed wire and Russian tanks which house the pro-Moscow administration, Mr Abdul-Kirim Arsakhanov, the head of the republic electoral commission, insists that at least 65 per cent of Chechnya's 478,000 registered voters will go to the polls on June 16.

"I do not think that the fighting will impinge on the elections," insists Mr Arsakhanov, whose offices occupy the ravaged city's former chess club. "The other side has agents who actively give information to journalists. That is why journalists have a false impression of the situation. ... but, in reality, the opposition is now broken and I think that in the end they will understand that it is pointless to continue to protest."

Yet, in a sign of how deeply Moscow has alienated everyone in Chechnya, even Mr Arsakhanov, one of the small band of pro-Russian officials who are reviled as traitors by many of their own people, is fiercely critical of the Kremlin's tactics in his republic.

"I will never forgive Russia. It was barbaric. People who fought in the second world war said that neither Stalingrad nor Berlin were pounded as severely as Grozny," Mr Arsakhanov says. "But what could little Chechnya do? The slogans of independence and freedom are in the dreams of all people, but how could little Chechnya stand up to the great Russian state?"

Go-ahead for UK to join arms agency

By David Buchan in Paris and Michael Lindemann in Bonn

French and German leaders have given the political go-ahead for Britain to join their new joint arms procurement agency, but have posed some "conditions which need ironing out", Mr Michael Portillo, the UK defence secretary said yesterday.

"I think we have been accepted [into the agency]," Mr Portillo said at the Western European Union, of which the UK currently holds the presidency.

"We did receive the green light at the political level, but have encountered more conditions and strings than we expected," he said, adding that, nonetheless, he expected UK membership of the agency soon.

French officials said yesterday Paris and Bonn wanted to be sure that the UK shared their goal of creating a common European defence procurement and industrial basis before admitting it into the fledgling agency, set up last year initially to run existing Franco-German programmes.

But the officials said talk of "conditions" was overstated, and that Paris and Bonn had set London no particular test on which to show its pro-European credentials.

That assurance seemed to be undermined, however, by signals from Bonn where defence ministry officials admitted that the three-way talks designed to incorporate Britain as a full member of the agency were "difficult".

Other officials pointed out that Britain had been taken by surprise before a meeting in Bonn on May 22 when it had been asked to endorse five principles governing the agency's policy which were agreed by France and Germany at their most recent bilateral summit last December.

The UK had already sifted through a five-point programme agreed at the summit in Baden-Baden but it then transpired that there was a further set of five principles which "needed consideration".

However, officials said the approval process was progressing and that Britain's membership of the agency was to be settled by mid-June.

One potential test of the Britain's pro-European credentials could come with Mr Portillo's imminent decision on whether to award the big contract for a conventionally armed stand-off missile (Casom) to the newly created joint company of Matra of France and British Aerospace, or to Hughes of the US in alliance with GEC of the UK.

Speaking earlier to France's military academy, Mr Portillo said the Franco-German agency, enlarged to take in the UK, could lead to "harmonising the procurement policies of the three countries that represent the overwhelming bulk of Europe's defence industrial base. ... This is a tremendous opportunity".

Polls boost president's re-election hopes

By Chrystia Freeland in Moscow

President Boris Yeltsin's bid for re-election received a psychological boost yesterday when an opinion poll with a reputation for independence put him on par with his Communist rival.

Although several other opinion polls have been predicting a strong Yeltsin lead for the past few weeks, the Institute for Parliamentary Sociology had stuck to its forecast that Mr Gennady Zyuganov, the Communist leader, would come out on top in the first round of voting on June 16.

In a new survey published yesterday, however, it predicted that Mr Yeltsin and Mr Zyuganov would tie at 36 per cent, a result which its director said would probably produce a victory for Mr Yeltsin in the run-off a few weeks later.

Despite the notorious unreliability of opinion polls in Russia, and their bias towards the incumbent, yesterday's result is significant because it means that all of the country's main pollsters now reckon Mr Yeltsin will be re-elected.

The president, who has defied concerns about his health following two heart attacks with an energetic round of public appearances, continued his vigorous campaign programme yesterday with a summit in the troubled Caucasus region designed to burnish his image as a peacemaker.

At a meeting in the southern city of Kislovodsk, Mr Yeltsin signed a mutual co-operation accord with Russia's three neighbours in the area: Georgia, Armenia and Azerbaijan. The presidents of all three states, which have sometimes had acrimonious relations with Moscow since the collapse of the Soviet Union, publicly backed Mr Yeltsin's re-election effort.

Mr Yeltsin also insisted his government was on the way to settling the war in Chechnya which has provided powerful political ammunition for his political opponents. Talks between Moscow and separatist fighters in Chechnya had "opened the way to a full settlement of the conflict".

A ceasefire agreement, signed amid much fanfare in the Kremlin last week, was broken just hours after it came into force over the weekend,

but Russian officials in Moscow said that peace talks would begin today.

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EU finance ministers' decision suggests flexibility over the Maastricht criteria

Danes join Emu elite on budget deficits

By Lionel Barber in Luxembourg

Denmark yesterday joined an exclusive club of European Union countries judged to meet the Maastricht treaty's targets for budget deficits, but Germany faced the embarrassment of being put on a blacklist.

The agreement on Denmark, reached by Union finance ministers meeting in Luxembourg, suggests that EU leaders will apply flexibility when judging which countries qualify for the single currency in early 1998.

The Danes trimmed their budget deficit to 1.5 per cent of gross domestic product last year, well below the Maastricht target of 3 per cent. Their debt ratio, though declining impressively, is still 71.9 per cent of GDP, well above the target of 60 per cent of GDP.

With this in mind, Germany formally objected to allowing the Danes to join Ireland and Luxembourg on the list of countries meeting the criteria. To qualify for Emu, countries must meet or be moving at a satisfactory pace toward the Maastricht targets of 3 per cent of GDP for public deficits and 60 per cent of GDP for government debt.

Like Britain, Denmark has an opt-out from monetary union and public opinion remains sceptical about the project. Its removal from the deficit blacklist should allow the government to impress financial markets.

Mr Theo Waigel, the German finance minister, has trumpeted the need for the strictest possible interpretation of the Maastricht targets for entry into monetary union. In addition to public deficits and debt, Maastricht stipulates low inflation and exchange rate stability for at least two years.

Germany's own fiscal position has deteriorated sharply in the past 12 months, leading to higher unemployment and a public deficit of 3.5 per cent in 1995. Germany's stock of debt is 58.1 per cent.

At the Luxembourg meeting, ministers agreed to stiffen the Maastricht provisions for enforcing budgetary discipline among Emu participants, working on German proposals for a so-called stability pact.

Germany wants EU disciplinary procedures to start automatically as soon as the 3 per cent target is breached or when a deficit "exists"; but Mr Kenneth Clarke, the UK chancellor, said the other 14 countries favoured action "when an excessive deficit persists".

Germany did gain support for time-limits for countries to put their house in order or face fines and public censure, diplomats said.

Mr Clarke said ministers had agreed to defer a decision on whether EU countries had to be members of the exchange rate mechanism for at least two years to qualify for Emu.

The British government, which took sterling out of the ERM in September 1992, in company with the Italian lira, has ruled out rejoining the ERM in the lifetime of the present parliament. Mr Clarke said deferral kept Britain's options on Emu open. "It is game, set and match for Britain," he said.

EUROPEAN NEWS DIGEST

Nastase behind in mayoral race

Opposition mayoral candidates appeared to be in the lead in several Romanian cities, including Bucharest, last night as partial, unofficial results from Sunday's first round of local elections began to trickle in.

In Bucharest, unofficial polls suggested Mr Victor Ciorbea, the candidate of the Democratic Convention (CDR), the main opposition group, had a commanding lead over Mr Ilie Nastase, the former tennis star, running for the governing Party of Social Democracy (PDSR). But in the Transylvanian city of Cluj, the extreme nationalist Mr Gheorghe Funar, leader of the PDSR's junior coalition partner, was reported to be leading the CDR candidate. The CDR won local elections four years ago but then lost narrowly to the PDSR in the 1992 general elections. The PDSR, which did not exist at the time of the last local polls, hopes to win Bucharest and some cities to boost its chances in this autumn's general election. However, turnout was so low that voting could go to three rounds in some areas. *Virginia Marsh, Budapest*

Croatia given human rights list

The Council of Europe will set Croatia five conditions on democracy, human rights and co-operation with the Yugoslav peace process for admission to the organisation, the organisation said yesterday.

It said the 39-nation council, which promotes democracy and human rights in Europe, would today approve a note setting terms for Croatia's membership.

The document, to be sent to Zagreb tomorrow, calls for steps "as rapidly as possible" on all five questions before Croatia can be admitted. The council froze the process on May 14 in protest at actions by President Franjo Tudjman. Croatia is called on to co-operate with the international tribunal on war crimes in former Yugoslavia; to facilitate free elections in Bosnia, particularly in Mostar; to allow the return of Serb refugees to Croatia; to drop prosecutions against independent news media; and allow the election of a mayor of Zagreb by the opposition-dominated city council. *Reuter, Strasbourg*

French video promotion dispute

Two video production companies said yesterday they had lodged formal complaints with the French and European competition organisations concerning allegations of preferential advertising rates offered to subsidiaries of the country's leading television stations.

Citel Vidéo and Editions Montparnasse said the policies adopted by the commercial station TF1 and the two public channels France 2 and France 3 discriminated against independent producers in the promotion of the the broadcasters' own video companies.

The two companies argue the rates being offered to TV station-owned rivals were devoid of any business logic, claiming the cost at commercial rates of the advertising airtime being given to the products was far beyond their financial resources. They said TF1 Vidéo had received advertising slots on TF1 worth FFr150m last year, during which time it had a turnover of just FFr340m, while France Télévision Distribution, owned by France 2, had received slots on France 2 worth FFr26m, the equivalent of its annual turnover. *Andrew Jack, Paris*

Belgian power utility targeted

The European Commission has written to the electricity utility, Electrabel, Belgium's largest company by market capitalisation, telling it to modify recently re-negotiated long-term contracts with the country's municipalities.

Mr Karel Van Miert, competition commissioner, told Electrabel, which supplies 92 per cent of Belgian electricity, he had "serious concerns" the contracts would prevent new competitors entering the market.

The contracts have recently been prolonged to 30 years, including what the Commission called an "almost exclusive" obligation to Electrabel. In return, municipal distribution companies were allowed to buy stakes in Electrabel, totalling 5 per cent. The commissioner has given Electrabel one month to come up with suggested changes to the contracts.

Electrabel said it would respond to Mr Van Miert's request by putting its own case. It said the contracts were not binding, and since it did not have a legally-guaranteed monopoly, the Belgian electricity market was more open to competition than the markets of many EU states. *Neil Buckley, Brussels*

EU works council for Toyota

Toyota, the Japanese car company, has agreed to create a European consultative works council for its 4,500 employees in Germany, the UK and Belgium. Mr Tatso Takahashi, the company's marketing and engineering managing director in Europe, said the new body would help Toyota to develop "mutual understanding and trust" with its workforce.

It was negotiated with the European Metalworkers' Federation to comply with the European Union's works council directive that will come into legal force across Europe, except in the UK, on September 22. The company stressed that the forum, which will start next month, would not duplicate or substitute its current systems of consultation at local plant level. *Robert Taylor, London*

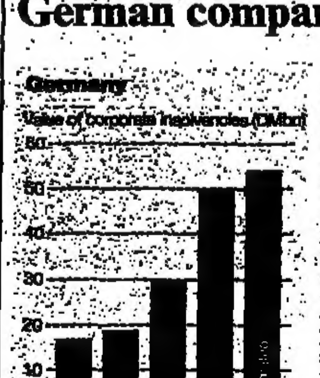
Shooting on Cyprus 'green line'

Turkish troops shot dead an unarmed Greek Cypriot soldier yesterday in a UN-controlled buffer zone dividing Nicosia, the capital of Cyprus, Cypriot military officials said.

The 19-year-old soldier was shot twice, a defence ministry official said. "He entered the buffer zone and started talking to a Turkish soldier – another Turkish soldier close by shot him," the official said. The incident on the "green line" dividing the island came on the day a British diplomat, Sir David Hannay, was due to arrive in a fresh effort to work towards a Cyprus settlement. Turkey has some 30,000 troops in northern Cyprus, which it seized during an invasion in July 1974. *Reuter, Nicosia*

ECONOMIC WATCH

German company failures rise



The number of corporate insolvencies in Germany increased 14.1 per cent in the first quarter this year, compared with the same period in 1995. The strong rise in insolvencies reflects the continued force of the restructuring process in eastern Germany and the severe economic downturn in the whole of the country. The Federal Statistics Office said yesterday that insolvencies had risen for the fourth year running, with 6,090 German companies either declaring bankruptcy or entering into insolvency procedures. In western Germany the number of corporate insolvencies went up by 6.6 per cent to 4,344, while in the east they increased by 38.2 per cent to 1,746. The east accounts for almost 30 per cent of all German insolvencies. The total amount of money owed to creditors has been put at about DM11bn ($7.2bn) for the whole of Germany, about DM3.4bn more than was owed at the beginning of the year. *Wolfgang Münchau, Frankfurt*

■ The Belgian industrial production index rose to 98.7 in December from 97.7 in November and was up from 94.7 a year earlier.

■ Finnish retail sales in March fell 0.1 per cent from a year earlier, with wholesale sales down 4.6 per cent year-on-year.

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Spain targets public works for big cuts

By David White in Madrid

New public works contracts will bear the brunt of spending cuts totalling Pta200bn ($1.56bn) by Spain's new centre-right government this year.

The government, seeking to get back on track to meet the Maastricht criteria for the European single currency, yesterday tried to douse criticism about delays in detailing its plans and said the Pta200bn figure, first announced more than three weeks ago, should be enough to bring public-sector accounts back on course.

Mr José Folgado, secretary of state for the budget, said he was "convinced" additional cuts in 1996 expenditure would not be needed "at least for the moment".

His statement contradicted earlier comments by Mr José Barea, head of the new budget office set up under the prime minister, Mr José Maria Aznar, suggesting a further cut of at least Pta400bn would be necessary to make up a gap in the social security accounts.

Mr Folgado said declining interest rates would ease the government's financial costs, while a gradual recovery in economic growth during the year should boost tax revenues. He made clear, however: "We are not talking about a boom."

The government has forecast economic growth for the year of 2.3 per cent after a 2 per cent rate in the first quarter compared with the same period in 1995. The forecast is a full percentage point below initial forecasts made by the previous Socialist government, defeated in elections three months ago.

Mr Folgado said growth would be encouraged by a package of stimulation measures due to be announced shortly, targeted particularly at smaller companies.

He voiced the hope that the spending curbs would generate confidence in international financial markets, although he added: "I cannot pre-judge how the markets are going to behave".

Public works and transport account for Pta79.2bn of the cuts, or almost 40 per cent. But Mr Folgado said projects which received EU co-financing, or which were already under way, would be preserved. At the same time, the government was studying "new formulas" for bringing private investment into infrastructure projects.

Smaller cuts are planned in other government departments including agriculture and education, while defence spending is kept almost intact.

> The government was studying new formulas for private investment in infrastructure

Meanwhile, the government has decided to block Pta56bn of funds resulting from rebates of transfers to the EU.

The cuts are in addition to Pta850bn lopped off departmental spending by the last government after it was forced to roll over its 1995 budget into this year.

Spain's target is to reduce its budget deficit from 5.8 per cent of gross domestic product last year to 4.4 per cent this year and 3 per cent in 1997.

■ Basque separatists hissed and shouted "out with the king" as the Spanish royal couple passed through the streets of Bilbao yesterday, Reuter reports from Bilbao. Four people were hurt when police fired rubber bullets at the protesters and beat them back. Police had cleared away most of the anti-monarchy demonstrators before King Juan Carlos and Queen Sofia arrived, but those remaining were able to make their protest.

Albania's flawed poll ends in landslide

By Marianne Sullivan in Tirana

Albania's ruling Democratic party yesterday claimed it had won another six parliamentary seats in the second round of the country's general election, which has been boycotted by most opposition parties and criticised by western observers for ballot-rigging and violence against opposition parties.

Most opposition parties, including the Socialist party – the successor to the former Communist party – pulled out of the first round of elections on May 26 and did not take part in the second round, leaving the Democratic party, which claimed a sweeping 67.8 per cent victory in the first round, to face a few minor rightwing parties in run-off votes.

Some 70 Socialist party members entered their fourth day of a hunger strike yesterday, vowing not to participate in the future parliament if new elections were not called. Opposition leaders are also calling for peaceful rallies throughout Albania today to protest against the alleged ballot-rigging and the police violence.

Mr Prec Zogaj, one of the leading members of the opposition party, Democratic Alliance, said police had refused the opposition's request to hold today's rally in Tirana's Skenderbeg Square.

The six seats won by the Democratic party in Sunday's second round of elections bring their total number to 101 of the 115 directly elected. The Democrats will also win some of the 25 seats allocated by the proportional system. The party is thus expected to control substantially more than the two-thirds majority of seats needed to pass constitutional laws.

Despite widespread criticism of the May 26 elections by western observers, and calls from the European Union and the United States for partial reruns of the poll, Albanian President Sali Berisha and Democratic party chairman, Mr Tritan Shehu, insist that the elections were fair.

Finance ministry embarrassed by scheme to help football clubs meet arrears

Portugal scores own goal on tax

By Peter Wise in Lisbon

Portugal's finance ministry was yesterday forced to issue a statement that Mr António Sousa Franco, the finance minister, is to stay at his post after newspaper reports that he had offered to resign in protest over a scheme to relieve football clubs of their tax arrears.

Portugal's Socialist government appears to have scored an own goal with the scheme – drawn up without Mr Sousa Franco's approval – that will cost the state Es15bn ($96m) in lost revenue.

Mr António Guterres, the prime minister, said yesterday his minority government had decided to seek parliamentary approval of the football tax scheme, backing down from pushing it through as a decree in what appeared to be a concession in exchange for Mr Sousa Franco's support.

The manoeuvring within the six-month-old government comes at an inopportune time, only days ahead of a global offering of 22 per cent of Portugal Telecom.

Financial markets were virtually at a standstill early yesterday, awaiting clarification from Mr Sousa Franco, a respected economist.

The decision to relieve popular football clubs such as Benfica and Sporting Lisbon of their tax debts has touched a nerve in a country where national tax and social security arrears total an estimated Es1,100bn ($7bn) – almost double the budget deficit – and Mr Sousa Franco has been directing a clampdown on widespread tax evasion.

"Businesses and individuals who struggle to pay their taxes or suffer penalties for getting into arrears feel they are getting a raw deal," said one tax consultant.

"Politicians are seen as afraid of the power of soccer clubs who spend fortunes on new players but simply ignore the tax man."

Last week the government signed a pact with the football federation under which all income from the state-run football pools system will be transferred to the soccer clubs to help them pay their tax arrears.

They had previously received only half; the remainder went to charity and welfare bodies.

The government will maintain the same level of payments to the charities – in effect, losing income equivalent to the clubs' tax arrears of Es15bn.

The Socialist initiative is the fourth government attempt in less than a decade to persuade football clubs to pay their taxes.

An unsuccessful attempt two years ago involved a threat to seize and auction assets belonging to the league champions, FC Porto.

Mr Sousa Franco, who appeared to have been surprised by the scheme, has reacted by ordering a rigorous audit of the clubs' debts. The issue highlights a split in the government between Socialist party members and independents such as Mr Sousa Franco.

Mr Daniel Bessa, another independent, resigned as economy minister in April in a row over Sunday shopping hours.

Islamist party's no-confidence motion increases chance of early election

Turkish MPs set up showdown vote

By John Barham in Istanbul

Turkey's parliament yesterday voted overwhelmingly to hold a no-confidence vote later this week that could bring down the three-month-old minority conservative coalition government of Mr Mesut Yilmaz.

Two thirds of the 550-member parliament voted in favour of holding the debate, in spite of a surprisingly strong showing by the Islamist opposition Refah party in local elections on Sunday. Parliament is expected to begin debating a no-confidence motion on Thursday, although the vote itself is likely to be held on Saturday.

Mr Necmettin Erbakan, Refah's leader, said yesterday "this shows again that the public wants Refah in power. If Yilmaz insists on staying, he will be removed forcibly." Refah took 33.5 per cent of the votes in 41 districts on Sunday, against 20.9 per cent for Mr Yilmaz's Motherland party which came in second.

> 'Çiller is a marked woman. She cannot be the leader of this party [True Path] from now on'

Although only 482,000 people voted, pollsters said Refah could repeat this performance in a national election, possibly winning a parliamentary majority.

Refah took 21 per cent of the vote in last December's inconclusive general elections, making it the largest party in parliament. Mr Yilmaz's fractious coalition with Mrs Tansu Çiller's rival conservative True Path party, sealed in March, began unravelling in April after Motherland MPs supported Refah demands for parliamentary investigations into corruption allegations against her.

They made no secret of their intention to prevent her taking office as prime minister in January as required under the two parties' power-sharing formula. She and Mr Yilmaz are fighting for control over the centre-right.

True Path MPs now appear to be mutinying against her leadership, following the poor results in Sunday's election. True Path took just 12 per cent pf the vote. Mr Cavit Çağlar, a leading party dissident, told the newspaper Hürriyet that "Çiller is a marked woman. She cannot be the leader of this party from now on." Mr Yaşar Dedelik, a True Path cabinet minister, is also agitating against her by reportedly calling for an meeting of the party's executive board to oust her as leader.

Polish board of sell-off fund sacked

By Christopher Bobinski in Warsaw

The Polish government has moved to head off the threat of growing disputes involving foreign participation in the country's Mass Privatisation Programme and dismissed the local supervisory board of one of the national investment funds set up under the scheme.

The move was immediately attacked by Mr Waldemar Pawlak, the head of the Polish Peasant party, the junior partner in the ruling coalition, who has often criticised the programme for giving foreigners too much influence.

Under the programme, equity in around 500 state-owned companies has been handed to 15 investment funds, each run by a management company combining local interests with foreign partners, with a 10-year contract. Around 13m Poles have taken up the offer of ownership certificates in the funds at a fee of 20 zlotys ($7.50).

The government has now dismissed the supervisory board of Fund 13; the board had threatened to terminate the managerial contract of Regent Pacific, a Hong Kong-based fund manager, and Yamaichi of Japan.

The board, headed by Mr Marek Bryx, recently appointed to head the supervisory board of the listed Warta insurance company, had repeatedly accused the fund managers of failing to live up to their promises. Regent Pacific and Yamaichi said their right to manage was being infringed by the board.

Mr Wieslaw Kaczmarek, privatisation minister, was already facing a dispute over Fund 11. In April, Wasserstein Perella and New England Investment of the US were dismissed as managers of Fund 11 by their Polish partners – KNK Finance and Investment.

The dismissal of Fund 13's board pre-empts another dismissal of foreign managers.

Talks are under way over compensation for Wasserstein Perella and New England Investment, and the quashing of the negligence charge the supervisory board used to justify the dismissal.

UNITED NATIONS CONFERENCE ON URBAN DEVELOPMENT

Battle lines drawn up on key issues

By John Barham in Istanbul

The ideological battle lines at yesterday's opening sessions of the United Nations conference on urban development fell between western countries and mainly Islamic and Asian countries alarmed by calls for greater local government accountability, women's rights and protection of the environment which they see as undermining development.

The conference has an agenda bringing together the findings of earlier UN summits, including last year's women's conference in Beijing and the 1994 population summit in Cairo.

Habitat II will take up issues linked to housing, poverty and the environment in the 21st century, when more than 3bn people are expected to live in towns, including the disputed issue of whether housing is a human right.

Western countries are wary of a declaration that would enable individuals to sue a government for not providing housing, while developing countries say western countries should share responsibility for clearing up poverty.

Mr Boutros Boutros Ghali, UN secretary general, opened the 10,000 delegate conference calling for "a global plan of action that embodies our vision of human settlements for cities, towns and villages that are viable, safe, prosperous, healthy and equitable".

Agreeing on what that vision should be will not be easy. Mr Michael Stegman, assistant secretary at the US Department of Housing and Urban Development, said "the principles of sustainable development need to be [emphasised]. You cannot make economic development the engine that threatens the foundations of life itself."

Like the European Union and many democratic countries in the developing world, the US emphasises environmental protection, devolving authority to local government as well as economic growth in its view of urban development.

However, an EU official said, "this is being opposed by countries from the Islamic world, Asia and especially China."

He said China opposed adoption of principles that encouraged political activism at local level or placing obstacles in the way of rapid urbanisation. "When we talk about population, and growth and urbanisation we are really talking about China."

Boutros Ghali: plan of action

Delegates said other fast growing Asian countries, together with some in the developing world, rejected adoption of principles that might interfere with their growth-oriented policies.

Islamic countries reject the emphasis on women's rights, such as demands by western development agencies they receive full property rights.

Yet a World Bank report said poor neighbourhoods could be transformed for as little as $100 per head, if governments made the correct investment and policy decisions.

Mr Ismail Serageldin, a World Bank vice president, said "community involvement in both the planning and maintenance of urban projects is the key to their success".

Private companies were notable by their absence at the conference, especially the big European and US utilities that are emerging as multinational corporations with operations in the developing world and the former Soviet bloc.

Mr Martin Rakotonaivo, assistant director of international relations at US Biotech, a New Jersey-based environmental engineering company, reports "zero" interest by conference delegates in his company, which uses biotechnology in waste disposal systems.

Libya trapped in inertia by 'curse of oil'

James Whittington finds an economy as much undermined by mismanaged abundance as by sanctions

Along the sandy Tunisian coast road to the Libyan border are hundreds of free marketers who wave wads of green notes with great enthusiasm at passing traffic. Whether you are travelling in or out of Libya these are by far the safest money-changers if you need to buy or sell Libyan dinars. At Tunisian road-side prices, a dollar will buy about three Libyan dinars. Inside Libya, the official rate fetches 10 times less and a death penalty awaits anyone caught changing at any other.

In spite of the risks, a vigorous black market has helped keep Libya's economy afloat since the imposition of limited UN sanctions in 1992. Although government officials and diplomats get noticeably uncomfortable when talking about exchange rates, all prices in Tripoli's well-stocked shops are quoted at the parallel market rate and most wages are calculated against the dollar.

The four-year embargo on flights to and from Libya and the ban on sales of aircraft parts and specialised equipment for the petrochemical sector has undoubtedly caused inconveniences to development in Libya. But unlike the more or less blanket UN sanctions on Iraq, the economy is far from being strangled. The government is free to sell all its oil – which makes up more than 90 per cent of export receipts – and Libyans can import virtually all other commodities and consumer goods.

Predictably, however, most Libyans blame the embargo for their current difficulties. Whether it is the exchange rate problem or the negative growth of the past few years, sanctions are a convenient scapegoat.

They have certainly helped increase average transportation costs and contributed to an inflation rate estimated at between 20 and 60 per cent a year.

Far more damaging, however, has been the long-term effect of the government's own economic policies. A combination of extensive controls, complex regulations and large-scale spending on "populist" projects has persistently eaten into the country's wealth and reduced real incomes.

Since 1992, real gross domestic product has been shrinking on a per capita basis from $8,048 to $7,421 this year, according to the International Monetary Fund's most recent estimates.

While in comparison to its neighbours this may seem high – it is nearly 10 times more than Egypt and over four times that in Tunisia – little has trickled down to the majority of the 5m Libyan nationals.

"Our worst curse is our oil," said one Libyan economist privately. "This is what perpetuates the status quo. While we can earn easy money from oil there is no incentive to encourage the private sector and diversify the economy."

With proven oil reserves expected to last 100 years at the current rate of production of about 1.4m barrels a day, Libya remains a magnet for the world's oil companies. American companies are banned by their own government from investing in Libya so the big players are nearly all European such as Italy's Eni-Agip, Spain's Repsol and France's Total.

This could change if a sanctions bill, currently being debated in the US Congress, becomes law. It is designed to strengthen sanctions on both Libya and Iran by imposing sanctions on companies developing the two countries' petrochemical sectors – including restrictions on trade and loans with the US.

The Libyans have begun to brace themselves by building up their foreign exchange reserves and imposing new restrictions on the import of luxury goods. The European oil companies have complained bitterly about the American plans and the European Commission has threatened legal action. Meanwhile, there is as yet no sign yet of Europe's interest in Libya diminishing.

"The oil companies are certainly annoyed at the US moves but as far as we can see the Europeans are still fighting tooth and nail for more exposure to the oil and gas sectors," said one senior diplomat in Tripoli.

Like the oil-producing states in the Gulf, one of the consequences of Libya's "oil mentality" is its reliance on hundreds of thousands of migrant workers who dominate the service and construction sectors.

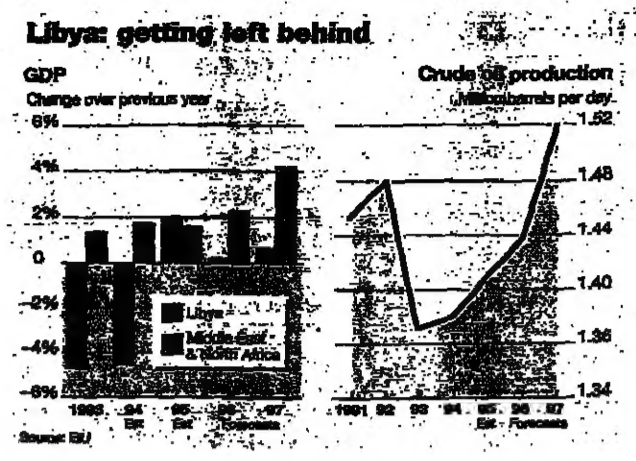
Restaurants and hotels in the two main cities of Tripoli and Benghazi are run by Moroccans and Egyptians, while the streets are cleaned and cars washed by workers from Chad and Mali. In the schools, Libyan children are taught by Iraqis and Sudanese, while the Russians and South Koreans assist with the country's military and infrastructure development.

With an estimated unemployment rate among Libyan nationals of about 20 per cent, the presence of about 1.5m foreign workers often inflames popular resentment. In the face of social tensions towards the end of last year, Colonel Muammer Gadaffi, the Libyan leader, threatened to expel 1m workers. Tens of thousands did in fact leave, but as with similar purges, others have since begun to fill their places.

Another familiar outcome of the country's oil wealth has been the mismanagement of government revenues. Although all new investment projects have been frozen since the sanctions, Col Gadaffi's grandiose dream to complete his great 1,000km man-made river continues to be pursued. Last month, South Korea's Dong Ah Construction Industrial Company won a $10bn contract to build the last phases of the scheme, which taps underground water from the Sahara Desert, by the year 2000.

Independent technical assessments have questioned the sustainability of the system. Nevertheless, a huge celebration is planned for September 1 this year when the taps are due to be turned on for the first time in Tripoli.

Like all big celebrations in Libya, there will be many invited foreign guests who will have to make the most of the money-changers in Tunisia.



Bahrain accuses Iran of plotting armed revolution

Bahrain yesterday accused Iran of plotting with a "terrorist" group to overthrow the Gulf state's government by force, Reuter reports from Bahrain.

It said it was recalling its ambassador to Tehran, Iran's capital, and downgrading diplomatic representation.

"A serious conspiracy has been uncovered which reveals that an organisation known as the military wing of Hizbollah-Bahrain, together with Iranian authorities, have been plotting since early 1993 to undermine Bahrain's security and stability," the interior ministry said.

It was the first direct accusation of Iranian involvement in the mainly Moslem Shia-led unrest which erupted against the island state's government in December 1994. Iran has denied any role.

"The movement's main aim is to stage an armed revolution to overthrow the Bahrain government by force and replace it with a pro-Iranian regime," the ministry added.

Bahrain has shared information about the plot with its Arab allies in the Gulf and yesterday Bahrain's Emir Sheikh Isa bin Sulman al-Khalifa sent envoys to other Arab states to brief their leaders.

Several Arab states have accused Iran of trying to export its 1979 Islamic revolution and supporting and financing violent Moslem militant groups. Iran has also denied these charges.

The ministry said: "The principal defendants, together with others, founded the terrorist organisation in the city of Qom in... Iran, under the guidance and with the full financial and resource backing of Iranian authorities...

"Some young Bahraini recruits [who joined] the organisation were subsequently trained on terrorist methods, including the use of weapons and explosives, at Iranian Revolutionary Guard corps camps in Iran before moving to Hizbollah camps in Lebanon," the ministry added.

Mr Mohammad Ibrahim al-Mutawae, Bahrain's information minister, said Bahrain was recalling its Tehran ambassador and would downgrade its representation in Iran to the level of chargé d'affaires.

He said 29 Bahrainis had confessed to links with the organisation and several people were still being questioned.

● Gulf Arab states have sounded alarm bells over Iran's efforts to develop weapons which the US says far exceed its defence needs, Reuter reports from Riyadh.

The six-nation Gulf Co-operation Council (GCC) said on Sunday that Tehran's arms programme was a threat to the region.

The remarks, at the end of a foreign ministers' meeting in Riyadh, the capital of Saudi Arabia, reflected a change in the GCC's often cautious tone towards Iran.

"It is a clear change from the previous statements like 'we all have to live together'," said a western expert on Iran's rearmament plans.

The change of tone appeared to move the GCC stance closer to that of the US, the Gulf Arabs' main ally, which has accused Iran of seeking to acquire weapons of mass destruction and of sponsoring "terrorism" abroad.

Washington also claims Tehran poses a threat to world shipping by deploying missiles in and around the Gulf.

Iran says its defence spending is less than that of Saudi Arabia, the largest customer in the region for US arms and an emerging military power.

INTERNATIONAL NEWS DIGEST

'Steady flow' of Iraq smugglers

US-led multinational patrols had diverted one sanctions-busting ship trying to smuggle diesel fuel or dates from Iraq every three to four days on average so far this year, a US navy spokesman said yesterday.

"It is substantially high in terms of numbers, especially in November and December. Since the beginning of the year there has been a steady flow. We are diverting one vessel every three or four days on average," Commander T. McCreary said.

He added that eight vessels, four carrying diesel fuel and four dates and fertiliser, were diverted in the past month. Some tried to escape into Iranian territorial waters, but were stopped.

So far this year 36 vessels from Iraq – which last month reached a deal with the United Nations on a partial resumption of oil exports – have been diverted for violating sanctions. *Reuter, Dubai*

Kaunda's top aides held

Zambian police yesterday arrested four key aides of former president Kenneth Kaunda, a day after five men were detained in connection with a series of bomb blasts, officials of Mr Kaunda's party said.

Mr Malimba Masheke, chairman of the United National Independence party (Unip), said Mr Kaunda's deputy in the party, Mr Inyambo Yeta, was among the four and that further arrests were expected.

"We have received information to the effect that the government is planning to swoop on the entire leadership of the central committee of our party," Mr Masheke told a news conference. On Sunday police arrested five men in connection with recent explosions at the official residence of President Frederick Chiluba and the offices of a state-run newspaper. Police have said other suspects were at large. *Reuter, Lusaka*

De Klerk outlines agenda

Mr F.W. de Klerk, South African deputy president, set the agenda for his new role as opposition leader yesterday, promising President Nelson Mandela a tough fight on economic policy and post-apartheid transformation.

Mr de Klerk, a member of every South African government since April 1978, said he was proud of the role his white-led National party had played in Mr Mandela's transitional government of national unity since May 1994.

But he touched on all the primary concerns of his white Afrikaner minority, which negotiated itself out of power between 1990 and 1994, when he listed the issues on which he would attack the ANC. Education, crime, affirmative action and the post-apartheid Truth and Reconciliation Commission would come under close scrutiny, he said.

The National party cited similar concerns in its successful campaign for last week's local elections in the Western Cape, the only one of nine provinces not dominated by a black African majority. *Reuter, Cape Town*

Moroccan siege stand-off

Moroccan riot police yesterday reinforced their siege of a trade union building in central Rabat where a sit-in by hundreds of jobless graduates demanding jobs entered its third week.

Witnesses and union officials said dozens of riot police came to prevent the strikers from leaving the Rabat headquarters of the Moroccan Labour Union, where the strikers have been holed up since May 20.

More than 1,000 men and women are estimated to be packed into the three-storey building. They are crammed into every available space, including the cellar and roof, where dozens of youths could be heard yesterday chanting slogans and waving banners.

The latest stand-off between the jobless graduates and police comes amid rising social discontent in Morocco. The two main trade unions have called a general strike for tomorrow to try to force the government to honour previous commitments to raise wages and respect union rights. *Reuter, Rabat*

Code of conduct for toy makers

By Robert Taylor in London

Representatives of the world's toy companies are to adopt a code of conduct designed to ensure products are manufactured in safe and healthy conditions.

The agreement, announced yesterday, follows substantial pressure from the international trade union movement which has focused on toy making in its campaign to improve labour standards.

The International Council of Toy Industries, which represents companies globally, said it had voted unanimously at a meeting in Brazil to back the code, which would apply to suppliers, contractors and producers as a condition for all contracts and letters of credit.

"The new code is based on the long-standing working practices of our members," said Mr Graham Benison, chairman of the Toy Manufacturers of Europe.

"It is a major achievement to have secured its adoption by the toy industry worldwide. We will continue to work hard to ensure the code is effectively enforced wherever toys are made."

The code commits companies to a belief "in the fair treatment and lawful compensation of workers" and a pledge that "no forced or under-age labour should be utilised to produce toys wholly or in part". That means employees "must show up for work voluntarily, not be put at risk of harm and be compensated in accordance with all applicable legislation".

The code adds that contracts "may be cancelled and damages assessed" if on-site inspections by the industry find the use of forced or under-age labour and dangerous working conditions. It also says toys must be made in workplaces that are "well ventilated and well lit", and where "no unreasonable mental or physical disciplinary practices are employed". Workers should have "adequate medical assistance in the case of emergencies".

The use of part-time or temporary labour is to be governed by local regulations and maximum hours and wage rates must comply with applicable national legislation.

The code is to be translated into Chinese, "in recognition of the significant role of Chinese factories in supplying the global toy industry".

INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

UNITED STATES

	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	13.5	8.1	6.49	7.67	3.43
1987	11.5	6.5	6.82	8.39	3.12
1988	4.2	5.4	7.65	8.84	3.61
1989	1.0	4.2	8.99	8.50	3.43
1990	3.6	5.5	8.06	8.55	3.60
1991	6.0	3.7	5.87	7.86	3.21
1992	12.4	2.0	3.75	7.00	2.95
1993	11.8	1.2	3.22	5.88	2.78
1994	8.2	1.4	4.67	7.08	2.86
1995	-0.3	2.1	5.93	6.57	2.61
2nd qtr.1995	0.2	1.1	6.03	6.60	2.68
3rd qtr.1995	-0.6	3.0	5.79	6.32	2.53
4th qtr.1995	-1.5	4.0	5.73	5.89	2.38
1st qtr.1996	-2.4	6.1	6.30	5.89	2.21
June 1995	-0.1	2.1	5.94	6.16	2.61
July	-0.5	2.4	5.80	6.26	2.55
August	-0.5	3.1	5.82	6.50	2.55
September	-0.9	3.5	5.74	6.19	2.48
October	-1.5	3.7	5.81	6.03	2.46
November	-1.7	3.9	5.74	5.93	2.42
December	-2.1	4.3	5.63	5.71	2.24
January 1996	-2.6	4.6	6.42	5.64	2.26
February	-2.7	5.0	5.15	5.81	2.17
March	-1.9	5.8	5.31	6.26	2.19
April	-2.4	6.6	5.38	6.50	2.20
May			5.39	6.72	2.18

JAPAN

	Narrow Money (M1)	Broad Money (M2+CDs)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	6.9	8.2	5.12	5.35	0.84
1987	10.5	11.5	4.15	4.64	0.55
1988	8.4	10.4	4.43	4.77	0.54
1989	4.1	10.6	5.31	5.16	0.48
1990	2.6	8.5	7.62	6.90	0.65
1991	5.2	2.0	7.21	6.40	0.75
1992	4.5	-0.4	4.28	5.24	1.00
1993	3.0	1.4	2.63	4.18	0.87
1994	5.4	2.9	2.12	4.20	0.78
1995	8.2	3.2	1.12	3.39	0.86
2nd qtr.1995	6.1	3.3	1.23	3.27	0.93
3rd qtr.1995	8.8	2.8	0.66	3.05	0.86
4th qtr.1995	12.9	3.2	0.43	2.88	0.81
1st qtr.1996	15.5	3.1	0.49	3.16	0.76
June 1995	7.0	3.3	1.09	2.96	0.96
July	7.2	2.9	0.80	2.91	0.91
August	8.6	2.9	0.71	3.25	0.85
September	9.9	2.8	0.46	2.97	0.82
October	12.1	2.7	0.41	2.89	0.83
November	13.9	3.4	0.44	2.88	0.83
December	12.8	3.2	0.42	2.86	0.77
January 1996	14.7	3.1	0.45	3.10	0.75
February	15.7	2.8	0.50	3.19	0.75
March	16.1	3.1	0.51	3.18	0.77
April	15.3	3.0	0.49	3.23	0.71
May			0.52	3.28	0.72

GERMANY

	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	9.9	7.3	4.64	5.90	1.79
1987	9.0	7.3	4.03	6.14	2.21
1988	9.8	6.4	4.34	6.46	2.61
1989	6.3	5.7	7.12	6.90	2.22
1990	4.5	4.5	8.49	8.66	2.11
1991	5.1	5.6	9.25	8.42	2.38
1992	7.1	8.2	9.52	7.80	2.45
1993	9.4	7.9	7.28	6.47	2.11
1994	9.6	9.0	5.38	6.86	1.77
1995	3.7	-0.0	4.53	6.82	2.00
2nd qtr.1995	2.8	-1.1	4.60	6.87	2.09
3rd qtr.1995	3.2	-0.7	4.41	6.68	1.96
4th qtr.1995	4.9	1.3	4.01	6.32	2.02
1st qtr.1996	9.5	5.4	3.45	6.17	1.88
June 1995	2.4	-0.7	4.53	6.70	2.06
July	2.9	-1.2	4.56	6.79	2.01
August	3.4	-0.5	4.46	6.71	1.97
September	3.5	-0.1	4.19	6.56	1.96
October	4.0	0.4	4.09	6.55	2.04
November	4.4	1.0	4.01	6.32	2.04
December	6.3	2.5	3.94	6.07	1.97
January 1996	8.2	3.7	3.62	5.90	1.88
February	9.7	5.9	3.35	6.18	1.86
March	10.6	6.7	3.36	6.44	1.91
April	10.6	7.1	3.33	6.39	1.88
May			3.29	6.45	1.87

FRANCE

	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	6.9	6.4	7.79	8.36	2.85
1987	4.1	11.5	8.63	9.46	2.75
1988	3.9	8.3	7.94	9.06	3.69
1989	7.5	10.0	9.40	8.79	2.88
1990	3.6	9.3	10.32	9.92	3.19
1991	-4.9	2.4	9.62	9.03	3.58
1992	-0.2	5.4	10.36	8.57	3.55
1993	1.8	-2.2	8.55	6.75	3.21
1994	2.7	0.8	5.84	7.21	2.89
1995	6.9	5.1	6.60	7.53	3.17
2nd qtr.1995	1.3	3.4	7.47	7.59	3.10
3rd qtr.1995	3.3	3.9	6.12	7.35	3.11
4th qtr.1995	8.9	5.1	6.14	7.10	3.25
1st qtr.1996	8.3	3.7	4.47	6.55	3.10
June 1995	1.3	3.4	7.18	7.45	3.14
July	0.5	3.0	6.44	7.42	3.09
August	1.3	3.9	5.96	7.30	3.08
September	3.3	3.9	5.98	7.34	3.19
October	0.0	3.0	6.89	7.47	3.31
November	2.1	3.9	5.90	7.06	3.20
December	8.9	5.1	5.60	6.76	3.23
January 1996	4.7	4.0	4.70	6.44	3.09
February	4.4	3.2	4.42	6.58	3.11
March	8.3	3.7	4.27	6.64	3.10
April			4.00	6.51	3.02
May			3.93	6.46	3.01

ITALY

	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	10.5	8.4	13.25	11.47	1.41
1987	10.4	9.6	11.32	10.56	1.94
1988	7.8	8.5	11.24	10.54	2.71
1989	7.1	9.3	12.42	11.61	2.46
1990	9.3	10.1	11.98	11.87	2.84
1991	7.3	8.8	11.83	13.20	3.45
1992	6.7	7.7	13.98	13.29	3.63
1993	4.6	7.4	10.22	11.23	2.35
1994	6.6	5.1	8.48	10.58	1.67
1995	0.8	0.6	10.38	12.22	1.72
2nd qtr.1995	-0.0	-0.4	10.69	12.71	1.76
3rd qtr.1995	0.0	0.5	10.82	11.79	1.64
4th qtr.1995	0.8	2.1	10.80	11.59	1.77
1st qtr.1996	-0.5	2.7	9.88	10.57	1.74
June 1995	-0.2	-0.1	10.85	12.41	1.88
July	-0.8	-0.4	10.88	12.23	1.75
August	-0.0	0.4	10.44	11.67	1.58
September	0.6	1.5	10.26	11.49	1.61
October	0.5	1.6	10.69	11.94	1.76
November	0.5	2.0	10.60	11.64	1.81
December	1.6	2.6	10.51	11.18	1.74
January 1996	0.7	2.8	10.01	10.47	1.66
February	-0.9	2.6	9.84	10.54	1.67
March	-1.4	2.6	9.80	10.71	1.90
April			9.52	10.35	2.14
May			8.84	9.72	2.25

UNITED KINGDOM

	Narrow Money (M0)	Broad Money (M4)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	4.0	15.4	11.02	10.21	4.35
1987	4.7	15.2	9.77	9.59	3.60
1988	6.8	17.3	10.41	9.62	4.48
1989	5.9	17.6	13.96	10.11	4.38
1990	5.3	18.1	14.82	11.56	5.07
1991	2.4	8.0	11.58	10.08	4.97
1992	2.4	5.1	9.74	9.09	4.91
1993	4.8	3.5	5.99	7.40	4.01
1994	6.4	5.0	5.57	8.01	3.94
1995	6.0	7.2	6.77	8.16	4.15
2nd qtr.1995	5.9	8.3	6.79	8.19	4.21
3rd qtr.1995	5.8	8.3	6.87	8.09	4.08
4th qtr.1995	5.5	9.4	6.71	7.77	4.04
1st qtr.1996	5.6	10.2	6.28	7.72	4.15
June 1995	5.6	6.9	6.73	8.09	4.17
July	6.7	8.1	6.89	8.23	4.11
August	8.1	8.5	6.88	8.10	4.07
September	5.5	8.3	6.83	7.92	4.06
October	5.2	9.0	6.81	8.09	4.04
November	5.6	9.4	6.73	7.76	4.05
December	5.7	9.8	6.57	7.48	4.04
January 1996	5.3	10.6	6.45	7.41	4.19
February	6.1	10.1	6.24	7.72	4.06
March	5.4	9.9	6.14	8.05	4.19
April	5.6	10.0	6.09	8.05	4.02
May	6.2		6.12	8.09	4.09

Monetary growth rates: show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. All growth rates refer to the seasonally adjusted series except for Japan and Italy. German monetary statistics now form a continuous pan-German series. Monetary data supplied by Datastream and WEFA from central bank sources. Interest rates: short-term, period averages of US – 90-day commercial paper, Japan – 3-month certificates of deposit, Germany – 3-month Fibor, France – 3-month Pibor, Italy – 3-month Euro-lira, UK – 3-month Libor; long-term, period average yields on 10-year benchmark government bonds. Interest rates supplied by Datastream. Equity market yield: period averages of the gross dividend yield on the relevant FT-A world index.

NEWS: THE AMERICAS

Index suggests strong growth ahead for US

By Michael Prowse in Washington

The US index of leading indicators rose for the third consecutive month in April, suggesting the economy will grow robustly in coming months.

Separately, purchasing managers reported a surge in an index measuring price pressures in manufacturing industry, and the Commerce Department announced a larger than expected gain in new construction spending.

The figures followed reports last week of a big increase in home sales that prompted speculation in financial markets that the US economy was gaining momentum faster than expected. Some analysts now predict the Federal Reserve could raise short-term interest rates at its next policy meeting in July.

The leading index is designed to predict changes in *economic activity six to nine* months in advance. The recent string of increases was the longest since autumn 1993, when the index gave advance warning of a surge in economic growth in 1994 – a surge that prompted the Fed to tighten monetary policy aggressively. The index rose 0.3 per cent in April, following a revised 0.3 per cent gain in March and a 1.3 per cent leap in February.

The overall purchasing managers' index fell slightly last month to 49.3 per cent, against 50.1 per cent in April. Most economists had expected the index to rise modestly, reflecting a mild expansion of manufacturing output.

However, financial markets focused on a sharp increase in an index of inflationary pressures. The "prices paid" component rose to 50.8 per cent from 40.1 per cent in April, mainly because of increases in prices of agricultural products. This followed nine months in which price pressures, as measured by purchasing managers, had appeared to ease.

The Commerce Department said construction spending rose 1 per cent in April to a *seasonally adjusted annual* rate of $551.7bn. In the first four months, construction spending averaged 5 per cent higher than in the same period last year.

Republican standard-bearer hopes for Senate progress on bills

Dole seeks lift for campaign

By Jurek Martin, US Editor, in Washington

Mr Bob Dole, the presumed Republican presidential nominee, enters his last full week as a US senator with only limited hopes that it will be crowned by votes useful to his campaign for the White House.

The first order of Senate business yesterday was the start of debate on the anti-missile defence bill, which the Republicans call the Defend America Act and which is designed to revive President Reagan's "star wars" programme of the 1980s.

But its prospects have been clouded by a Congressional Budget Office report that it could end by costing as much as $60bn to install – far more than its Republican sponsors had estimated. The CBO analysis forced the postponement two weeks ago of a vote in the House of Representatives on the measure.

Mr Dole also intends to bring to the floor, later in the week, the proposed constitutional amendment to balance the federal budget in seven years. This passed the House last year but failed by a single vote to secure the required two-thirds majority in the Senate.

He has already virtually conceded little chance of approval this time, but hopes for maximum election mileage from a symbolic vote. Last week, a group of senior Republicans from both chambers wrote to President Bill Clinton warning that "failure to do everything in your power to win this vote would send a clear signal to the American people that you place politics above country."

Still unresolved by the Senate are the elimination for the rest of the year of the 4.3 cents a gallon tax on petrol (as Mr Dole wants), an increase in the federal minimum wage (a Democratic priority), and another Republican proposal aimed at limiting the collective bargaining power of trades unions.

Two weeks ago, the House approved the first two measures, with the minimum wage vote constituting a substantial defeat for congressional conservatives. But Mr Dole had been holding out for all three to be taken as a package, partly to invite a veto from Mr Clinton. The result has been a legislative stalemate.

Mr Dole's last day in the Senate, where he has served since 1969 after eight years in the House, will probably be next Tuesday, but could be later this week, depending on Senate action. He has promised only brief farewell remarks and said he wants no great ceremony to mark his departure.

This would be in keeping with his new campaign image as "a man of the people", rather than a Washington insider, though his colleagues in the notoriously sentimental Senate may have other ideas. So may Mr Clinton, though one of his more controversial campaign TV commercials has called Mr Dole "a quitter" for resigning his Senate seat.

The race to succeed Mr Dole as Republican leader in the Senate, a post he has held since 1984, has narrowed down to the two senators from the southern state of Mississippi, Mr Trent Lott and Mr Thad Cochran. The odds appear to favour Mr Lott, now Mr Dole's deputy, though the more moderate Mr Cochran has served in the Senate for 10 years longer.

McDonnell Douglas faces strike threat

By Richard Waters in New York

The 6,700 workers in McDonnell Douglas' St Louis aircraft manufacturing plants are set to go on strike from tomorrow, marking the latest outbreak of labour unrest in the US about job security.

The members of the International Association of Machinists and Aerospace Workers voted on Sunday to reject a new four-year contract, setting the stage for a walkout.

The unrest at the plants, which make military aircraft, echoes a strike by members of the same union at Boeing late last year, as well as the dispute which brought General Motors' assembly lines in North America to a halt in March.

Each dispute has centred on plans by employers to buy more parts from suppliers rather than make them in-house. The US's big manufacturing unions fear these moves would shift jobs to lower-paid, non-unionised workers.

The Boeing strike ended in a partial victory for the machinists when the company agreed to set limits on the extent of its out-sourcing.

Mr Jerry Oulson, head of the union's District 837 in St Louis, which represents the McDonnell Douglas workers, pointed recently to the greater job security won by the Boeing workers as a model of the assurance his members wanted. "Workers are losing thousands of jobs while McDonnell Douglas enjoys some of its highest profit levels ever," he added.

Venezuela agrees IMF deal

By Raymond Colitt in Caracas

Venezuela yesterday agreed a memorandum of understanding with the International Monetary Fund over its economic stabilisation and structural adjustment programme, paving the way for final approval of a $1.4bn stand-by loan later this month.

Concessions made: Michel Camdessus (left) of the IMF and President Rafael Caldera of Venezuela

The agreement comes over a month after Venezuela implemented a package of reform-oriented austerity measures. Mr Michel Camdessus, IMF managing director, who has met representatives of the government, industry and labour during his present three-day visit to Venezuela, endorsed the reform efforts of President Rafael Caldera's government.

He expressed confidence that the programme would produce results soon. "I have no doubt that inflation will decrease, investor confidence will be renewed and Venezuela will embark on sustainable development," said Mr Camdessus.

The planning ministry says the agreement stipulates a budget deficit of 2 per cent of GDP for 1996 (1.2 per cent for 1997), an inflation rate of 86 per cent by year-end (25.8 per cent for 1997), and economic growth of negative 1.1 per cent for this year, rising to 4 per cent for 1997.

One of the final stumbling blocks to an agreement was overcome when Venezuela agreed to IMF demands that it meet overdue debt obligations by year-end.

The Venezuelan government has further pledged to re-start its stalled privatisation programme, reform a costly severance payment system, and restructure the struggling financial sector, for which the government will receive financial aid from the Inter-American Development Bank.

Provided Venezuela adheres to the established targets, it could qualify for an extended loan facility within one year, though economic authorities have indicated that the government hopes to have alleviated its fiscal problems by then.

Mr Caldera has had to renege on his pledge to resist IMF demands, but the accord is seen as a face-saving compromise for his government.

"The IMF has ceded on a number of Venezuelan demands, such as stronger social programmes," said a senior official in the planning ministry, adding that the IMF had heeded the government's warnings of potential social unrest and agreed to a gradual increase of utility and petrol prices.

Changes in US merger guidelines proposed

By Patti Waldmeir in Washington

The Federal Trade Commission, the US government regulatory agency, yesterday proposed changes in US merger guidelines to make it easier to justify mergers on the basis of cost savings.

Present guidelines focus more on the possible effect of mergers on price, rather than on the competitive effects of cost-savings.

Anti-trust lawyers said the new guidelines, recommended for adoption by both the FTC and the Justice Department, are unlikely to unleash many new mergers, as they broadly reflect current practice in both organisations.

Ms Janet McDavid, an anti-trust lawyer at the firm of Hogan & Hartson in Washington, said the "best staff" at both organisations already take efficiencies into account when determining whether a merger is anti-competitive. "But it's not uniform, either within the FTC or between organisations," she said.

In banking, cost savings have already been used to justify some recent mergers which have led to much consolidation. The guidelines, if adopted, "would not so much take transactions which are illegal today and make them legal, but would reduce or even eliminate the level of divestitures required" to meet FTC demands, said Mr Rodgin Cohen, a New York anti-trust lawyer who specialises in banking mergers.

The proposed guideline changes are unlikely to have affected any of the recent high-profile mergers at which the FTC has balked, including a merger of Rite Aid and Revco, the US drug store chains, abandoned after FTC complaints, or the proposed merger of Time Warner and Turner Broadcasting System.

The 300-page report, prepared after public hearings, recommends closer scrutiny of the way mergers affect the development of new products, to ensure active competition in research and development.

The selling of a Brazilian super-state

Angus Foster and Jonathan Wheatley assess progress of privatisation in São Paulo

It is a measure of the economic might of São Paulo state that Governor Mário Covas can talk about privatising the state's three electricity companies to pay off $10bn of their debts, and still have $10bn left for investment.

The Brazilian state, with an economy roughly the size of Argentina's, is home to some of the biggest power companies in the developing world. It also has 30,000km of good highways and a population, with an average annual income equivalent to more than $4,000, which is increasingly demanding better services.

What the state government does not have is money. São Paulo generates about 40 per cent of Brazil's tax revenues but its bloated bureaucracy, and huge debts of about $68bn, accumulated under previous governments, mean investment had to be cut last year by 80 per cent to less than $300m – just to balance the budget.

The need to raise cash explains why Mr Covas, a long-term ally of Brazil's President Fernando Henrique Cardoso and a recent convert to privatisation, is now keen to attract private sector investment. "The political climate and public opinion are very favourable. In the energy sector, we're further advanced than even the federal government," he said in an interview last week.

Governor Covas is keen to attract private investment: 'Political climate and public opinion are very favourable'

Mr Covas, who is to present his privatisation plans at a seminar in London on Thursday, has plenty to be keen about. His energy secretary, Mr David Zylbersztajn, estimates that 100 potential foreign investors have paid calls in the last year, such is the potential interest in the sell-off.

Mr Zylbersztajn, who is Mr Cardoso's son-in-law as well as an electricity specialist, is overseeing a complex restructuring of the state's electricity sector to prepare for privatisation. The three existing companies – CESP, Eletropaulo and CPFL – are being unbundled so their various generating, transmission and distribution assets may be turned into new companies.

The aim is to create six generators, a transmission company and 11 distribution companies. The state is only interested in retaining control of the transmission company, to ensure equal access for the distributors.

The biggest short-term question mark over the project lies in São Paulo's state assembly, which must approve the restructuring. Mr Covas's Social Democracy party (PSDB), which has only 26 of the 94 seats in the house, was in coalition with the Liberal Front party (PFL), which gave him a governing majority, but that ended last week.

Even so, he is confident electricity privatisation will be approved in "one or two months. This is not a project which involves party politics. I'm sure the PFL will vote in favour in large numbers."

If approved, the first of the new companies could be ready for sale this year, but the more attractive concession areas are likely to take longer. A key question is regulation, since the federal government is drawing up new rules for Brazil's electricity sector, as well as for new entrants such as independent power producers.

Although regulatory uncertainty may deter some investors, as happened last month in the successful privatisation of the Rio de Janeiro distribution company, Light, Mr Zylbersztajn is sure his programme can go ahead. One option is to create golden shares to let the state set conditions on quality of service in the newly privatised companies. The shares could be superseded or absorbed into the federal government's new regulatory framework later.

"Even if the central government doesn't finish its regulations in time, we can still go ahead," Mr Zylbersztajn says.

Privatisation of highways is already under way. The plan is to sell 22 concessions to manage 5,000km of the state's best roads; Mr Covas hopes 70 per cent of the concessions will be sold during his government, which runs to the end of 1998.

Mr Plinio Assemann, São Paulo transport secretary, says private concession holders will invest 5bn Reals ($4.8bn) in highway improvements during the first 20-year contracts. The first concession, to manage and improve a system of two parallel highways running 150km north-west from São Paulo city, should be awarded by September.

With the first contract awarded, Mr Covas hopes more will follow quickly. "It took some time to get the first concession moving because it was a new experience, but we will now run several privatisations concurrently."

Chileans put time at centre of education

Longer hours are seen as a lesson for other would-be reformers, writes Imogen Mark

Education systems are acknowledged to be failing across Latin America, damaging the region's ability to compete in high-value international trade and hindering social mobility.

Now, measures taken by elected governments in Chile since they took over from the military in 1990 are being held out by educational experts as pointing the way forward for the rest of the region.

Mr Alan Angell, an academic from Oxford in England, who has completed a study of Chilean reforms, argues that the failings of education systems are similar for most countries. "The Chilean experience provides a number of general lessons for would-be reformers elsewhere," he said.

According to Mr Sergio Molina, Chile's education minister, the process will be completed next year when children get an extra three hours a day at school. This will bring the average hours of schooling close to the levels of industrialised countries.

"This is the culmination of a process of reforms which we began in 1990, with changes in teaching methods, new texts, classroom libraries and computers. But we reached the conclusion that the only way to take full advantage of all this investment was to extend the school day," said Mr Molina.

Most state schools, which cater for more than 90 per cent of children, offer only a five-hour day, and teachers often work two and even three shifts.

The new timetable will demand an extra investment equivalent to $1.4bn over the next five years, the education ministry said. More than half the money will go for 20,000 new classrooms, but there will be extra funds to train teachers, and more teachers. There is also a plan for 40 high-performance schools in large towns for bright children from poor homes.

The extra money will come partly from savings in other parts of the budget and partly from postponing a planned reduction of a percentage point in value-added tax, the government's main source of tax revenue.

Chile has been experimenting with ways to improve schooling through a special programme part-financed by the World Bank. A bank team was in Santiago last month evaluating a 2½-year programme covering almost all 8,000 state primary schools. Mr William Experton, the team leader, said it was impressed. He said no other country the team visited had "gone so far in changing educational practice in the classroom."

The team stressed the new access of the children to books, and the stimulus to read, as a result of providing small basic libraries in each classroom and from three to five textbooks for each child. Until now, most children in both primary and secondary state schools have had little or no access even to textbooks.

Another member of the delegation, Ms Himelda Martinez, was struck by the achievements of one-teacher, rural schools: "These can provide a good education, contrary to the perception in much of Asia, for example". The schools are backed by a basic health programme, with screening to catch and treat hearing and vision problems.

Bureaucracy may be a stumbling block. The school system was decentralised during the 1980s, but municipal authorities which run the schools are short of money and administrative skills. The ministry has overall responsibility for the curriculum.

An international advisory team, reporting last September, said schools were subject to competing and sometimes conflicting administrative powers.

Overall spending on education is also still much too low, said Mr Alejandro Foxley, president of the Christian Democratic party. Chile is spending $133 a head, he said, compared with an average $1,000 in northern hemisphere countries.

NEWS: WORLD TRADE

Japan backs EU role in chip negotiations

By Michiyo Nakamoto in Tokyo

Mr Ryutaro Hashimoto, Japan's prime minister, yesterday said a dispute with the US over renewal of the bilateral semiconductor accord should be resolved with the participation of the European Union.

"The European Union has expressed its interest in participating [in the negotiations] so it is no longer a bilateral issue," Mr Hashimoto told US ambassador Walter Mondale during a meeting in Tokyo.

Mr Hashimoto's remark, which was made in response to Mr Mondale's suggestion that the two countries need to focus more on resolving bilateral trade issues, is the strongest indication so far that the Japanese government would consider a tripartite arrangement as proposed by the European Commission.

The US and Japan are at odds over whether to continue a semiconductor agreement scheduled to expire at the end of next month.

The US has interpreted the agreement as a guarantee for continuing improvement in the share of foreign semiconductor makers in the Japanese market.

The Japanese government has persistently insisted that there is no need to renew the agreement, which forces government involvement in the industry.

The EU, meanwhile, which criticises the bilateral arrangement as discriminatory, has been keen to ensure it does not get left out of any deal between the US and Japan.

As the agreement nears its expiry date, the hardline stance of the Japanese government has begun to show signs of softening.

Mr Seiroku Kajiyama, chief cabinet secretary, indicated yesterday that the Japanese government would be ready to play some role in a semiconductor agreement, provided it did not involve numerical targets.

Mr Kajiyama's comments seem to corroborate speculation that there are moves to formulate a deal which has some kind of government involvement, as the US insists, but which steers clear of market share targets that Japanese officials find so offensive.

The Electronics Industry Association of Japan has written to the US Semiconductor Industry Association with proposals for industry-to-industry co-operation and a meeting in mid-June to discuss the possibility of a transitional three-year period for such co-operation.

Publicly, Japan's trade ministry insists the dispute should be resolved by the industries of the two countries.

However, the ministry of international trade and industry (Miti) is also aware of criticism that its hardline stance has not helped US-Japan relations. If the ministry was asked to co-operate with the industries' efforts, it was prepared to lend an ear, one official said.

LA mayor's tax plans fly into storm

Los Angeles International Airport (LAX) is potentially one of the highest-yielding cash cows in Mayor Richard Riordan's patch. But the beleaguered civic leader, who failed when he tried to privatise LAX two years ago, has now run into trouble with his efforts to milk it.

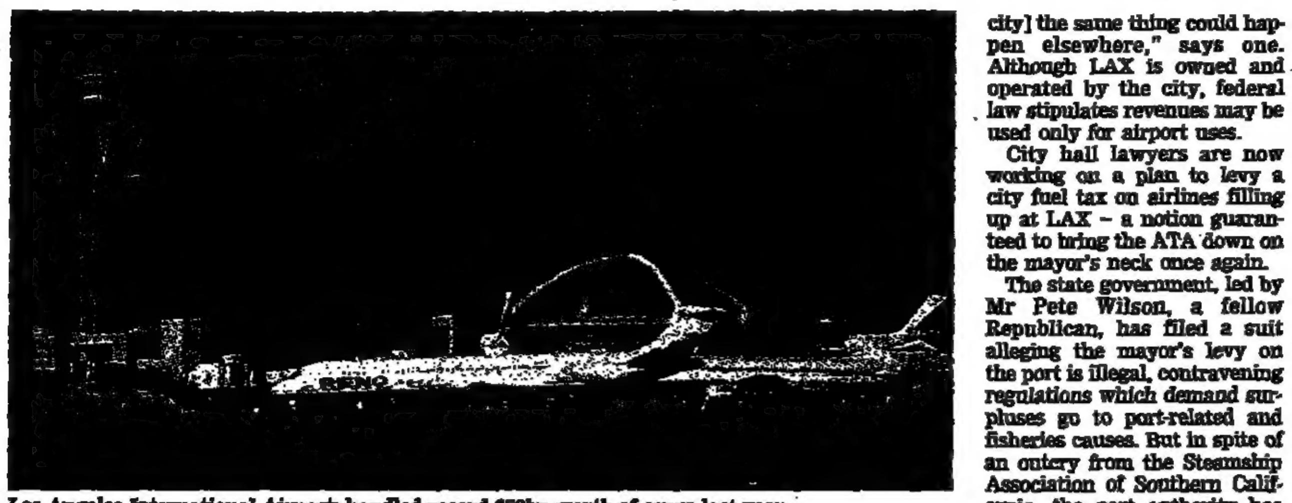
He has similar problems down the coast at the port, the main focus of the Californian trade boom which is predicted to bring 700,000 permanent jobs to the region by early next century.

Mr Riordan's budget proposal to siphon $170m from the harbour, airport and local water and power utility to pay for extra police and public services has stalled in the face of opposition from politicians, the business lobby and academics. It has prompted legal action from the Californian state capital, and threats of punitive counters from Washington.

The sum may be small in relation to the $4bn-odd budget he is struggling to push through the city council, but the drain on the financing abilities and competitiveness of his targets – which have already handed over about $400m since 1994 – is unsustainable, opponents say.

LA has overtaken New York as the biggest US trading post, handling goods and traffic valued at about $190bn a year. The airport last year funnelled a record $58bn worth of cargo through its facilities, and revenues reached a peak of $382m.

More than a quarter of the LA metropolitan area's gross regional product depends on international trade – up from 13 per cent in 1972 – and all forecasts predict the trend will continue.



Los Angeles International Airport: handled record $58bn worth of cargo last year

Some 17 per cent of US air cargo passes through LAX, and passenger and cargo traffic is expected to double by 2015. Los Angeles port and the facilities at neighbouring Long Beach handle a quarter of all US seaborne trade.

These sea and air outlets, together with associated improvements to road and rail links, are the subject of expansion and upgrading projects with an aggregate budget of about $9bn. "This represents the largest capital spending programme for trade infrastructure of any metropolitan area in the nation," according to Mr Steven Erie, a political science professor at University College San Diego.

Mr Erie, as vociferous in his support of LA's trade-based expansion as in his opposition to Mr Riordan's projects, argues that all surpluses need to be ploughed back into these facilities.

One of the city's preliminary steps towards tapping LAX revenues – sharp increases in aircraft landing charges – made the airport "cash rich but uncompetitive", he claimed recently. Fees are double those at competing landing points in San Francisco, Phoenix and Seattle, he added.

Levies on the port, to correct underpayments in the past for fire and police protection and other city services, will force greater reliance on debt and reduce the facility's ability to finance development on a pay-as-you-go basis, Mr Erie says.

Although the department of water and power has no direct link with trade, inroads into its surpluses will further damage the regional economy, Mr Erie says. The city's demands leave no room for the department to reduce debt or match rate cuts already signalled by private sector competitors lining up for the introduction of a free market in electricity in the next few years.

Mr Riordan, a Republican constantly at loggerheads with his powerful city council, has with this revenue-raising venture mobilised opposition far beyond city limits.

The Washington-based Air Transport Association (ATA), the industry lobby group, spent more than $350,000 on a local campaign against siphoning LAX revenues. Airport officials take the mayor's view that city services must be paid for, but they see the air carriers' point. "They are concerned that if something changes here [to release surpluses to the city] the same thing could happen elsewhere," says one. Although LAX is owned and operated by the city, federal law stipulates revenues may be used only for airport uses.

City hall lawyers are now working on a plan to levy a city fuel tax on airlines filling up at LAX – a notion guaranteed to bring the ATA down on the mayor's neck once again.

The state government, led by Mr Pete Wilson, a fellow Republican, has filed a suit alleging the mayor's levy on the port is illegal, contravening regulations which demand surpluses go to port-related and fisheries causes. But in spite of an outcry from the Steamship Association of Southern California, the port authority has already paid $40m into the city's coffers in the past six months.

In retaliation, prompted by the business lobby, Washington politicians have launched initiatives to hamper the flow of federal funds for transport infrastructure development to LA and to sharpen penalties for cities which divert airport revenues.

But Mr Riordan, whose budget-balancing efforts have taken on the aura of opportunism at best and barrel-scraping at worst, remains steadfast.

Despite setbacks such as the council's block on his airport levy, he is preparing to fight back from his platform that LA's citizens have a right to an economic return from public investments and that the city's milch cows will be none the worse for the sacrifice.

Christopher Parkes

Employers urged to act on child workers

Employers should develop policies to eliminate all child labour and immediately "put an unconditional end to exploitative, bonded and dangerous forms" of child labour, according to the International Organisation of Employers, writes Robert Taylor, Employment Editor.

The general council of the Geneva-based body that represents employer organisations in more than 120 countries, also said yesterday it was opposed to attempts to link the issue of working children with international trade.

The organisation denounced as "counter productive" suggestions that trade sanctions should be imposed on countries where the problem of child labour existed. The council said it saw no merit in the introduction of a social clause to enforce labour standards in trade agreements and it opposed efforts to have the trade/labour link discussed at December's ministerial meeting of the WTO.

The council passed a resolution calling on companies to "encourage and work" with local and national governments to develop and implement policies designed to eliminate child labour as well as "promote access to basic education and primary healthcare, which are crucial to the success of any effort to eliminate child labour".

WORLD TRADE NEWS DIGEST

GE in Russian jet engine link

General Electric of the US yesterday said it had reached an agreement with Rybinsk Motors, the struggling Russian aerospace concern, to establish a joint venture to make jet engines. Rybinsk Motors, based about 400km north of Moscow, is one of two Russian manufacturers of engines for wide-bodied aircraft. The company has cut production sharply in recent years as Russia's aviation industry has struggled to adapt to the market. Last year the Russian government sought to declare the company bankrupt and privatise the state's remaining 37 per cent stake. Management and local officials blocked the deal.

Rybinsk-GE Aviation Motors, as the joint venture will be called, also will handle marketing and servicing of the jet engines in the Russian market. *AP, Moscow*

Korean Air to boost fleet size

Korean Air, South Korea's leading carrier, plans to buy 20 aircraft from Boeing and 17 from Airbus Industrie over the next five years under a programme to almost double its fleet from 105 aircraft to 200. It has placed an initial order for two A330-200 airliners from Airbus for delivery in late 1998.

Korean Air is planning to increase its capacity by 10 per cent annually. The fleet expansion reflects expected strong passenger growth, with traffic predicted to increase by 12 per cent annually over the next few years.

The Korean carrier already has one of the youngest fleets in international service, with an average age of 8.1 years. In contrast to its domestic rival Asiana, with its all-Boeing fleet, Korean Air uses a wide range of aircraft from US and European manufacturers. They include 39 Boeing 747s and 33 of the Airbus 300 series, with smaller aircraft from McDonnell Douglas and Fokker. *John Burton, Seoul*

Munitions groups join forces

Two state-controlled munitions and tank manufacturers – Giat of France and Otobreda of Italy – are to link up to build and sell 25mm gun-turrets for tanks, and to co-operate on the development of battle tanks.

Otobreda, which is part of Italy's Finmeccanica holding company, said the agreement would start with the joint marketing of its Hitfist two-man turret, and Giat's Dragar one-man turret, which will be installed on an armoured car being developed by the French, Germans and British.

The two companies said they would also co-operate on improving Giat's Leclerc battle tank, and Otobreda's Ariete tank, particularly in the area of on-board equipment.

Both groups are trying to restructure and forge alliances to combat US competition and reduce the fragmentation of the European industry. Last month Giat announced it would have to reduce its 12,400-strong workforce by 2,700 by the end of 1998. Otobreda last year linked up with Wegman of Germany to build heavy artillery and Vickers of the UK to produce light naval cannons. *Andrew Hill, Milan*

■ Iran will order 10 more oil carriers after taking delivery of the first of five 300,000-tonne oil tankers from Daewoo, the South Korean company. *AFX, Tehran*

■ South Korea's state-run Korea Land Development (Koland) has applied to build a 100 per cent foreign-owned industrial park in the Gia Lam district of Hanoi. A feasibility study carried out by Koland showed the 107-hectare park would house about 120 small and medium-sized South Korean enterprises. The companies' combined investment would be more than $500m. *Reuter, Hanoi*

CONTRACTS & TENDERS

HK magnate may compete for top post

Mr Tung Chee-hwa: resigned from Executive Council

By Louise Lucas in Hong Kong

Mr Tung Chee-hwa, a shipping magnate, yesterday resigned from Hong Kong's Executive Council, the top advisory body to the governor, fuelling speculation that he will compete for the job of chief executive of the colony after its handover to China in 1997.

The resignation comes a fortnight after Mr Lo Tak-shing, a solicitor and also a former ExCo member, publicly declared his intention to stand for the chief executive's post.

In his resignation letter to Mr Patten, Mr Tung insisted that his decision to resign from ExCo arose because of a conflict of interest with his duties on the Preparatory Committee, the Beijing-appointed body overseeing the handover.

Mr Tung was named vice-chairman of the Preparatory Committee in February.

The Preparatory Committee and Governor Chris Patten's government have clashed on several issues, most notably the creation of a provisional legislature that would, for a limited period, run in parallel with the existing elected legislature which China has pledged to disband immediately after the handover.

Mr Tung denied his decision was a necessary "clearing of the deck" before running for the job of chief executive of the future "special administrative region" (SAR) of Hong Kong, as the colony will be known post-1997. However, his membership of ExCo was seen as incompatible with ambitions for the chief executive's job.

Mr Tung has never formally stated his candidacy, but in January Mr Henry Fok, an adviser commanding widespread respect in Beijing, gave him his backing. Mr Li Ka-shing, a property tycoon, has also endorsed Mr Tung, despite initial opposition to businessmen as leaders of the SAR. Both Mr Fok and Mr Li have business links with Mr Tung.

Mr Tung has been seen as one of the strongest candidates for the post – in part because of his perceived likeliness to retain Mrs Anson Chan as chief secretary. Other possible contenders include Mrs Chan herself, although her job as chief civil servant is likely to stand against her, and Mr C.Y. Leung, a businessman who is closely linked with Beijing but has been quick to deny his interest.

> Membership of ExCo is seen as incompatible with running for chief executive

Several Hong Kong tycoons mentioned in the early days now appear to be non-starters.

While no clear timetable has been set for the selection process, members of the Preparatory Committee had indicated that a decision was due in the autumn. However, a top China official has said more time may be required to assemble the 400-strong committee who will choose the chief executive.

Yesterday, Mr Patten said both he and Mr Tung recognised that at some point the tensions between the two disparate roles might become too difficult to reconcile. "I made clear that this would be very much a matter for him to decide... clearly that point has now come," he said.

Transition highlights role and rules of market

With the return of Hong Kong to Chinese rule fast approaching and rivalry between the region's financial centres growing, Mr Joseph Yam is in something of a hot seat.

As chief executive of the Hong Kong Monetary Authority (HKMA), Mr Yam is guardian of Hong Kong's financial stability as the territory and its markets confront the uncertainties of the transition. And as one of the main movers in institutional and regulatory reforms, he is at the forefront of Hong Kong's drive to secure its role in the face of competition from markets such as Singapore and Shanghai.

For the moment, there is little to ruffle Mr Yam's calm demeanour. The Hong Kong currency has been on the strong side of its peg rate against the US dollar, a link established in 1983 after political worries prompted turmoil in the foreign exchange market.

Spreads between yields on Hong Kong and US government paper are narrow, although somewhat wider for longer-term issues. The stock market has turned in a steady performance this year, while the property sector, which underpins the economy, is recovering from the downturn of 1994-1995.

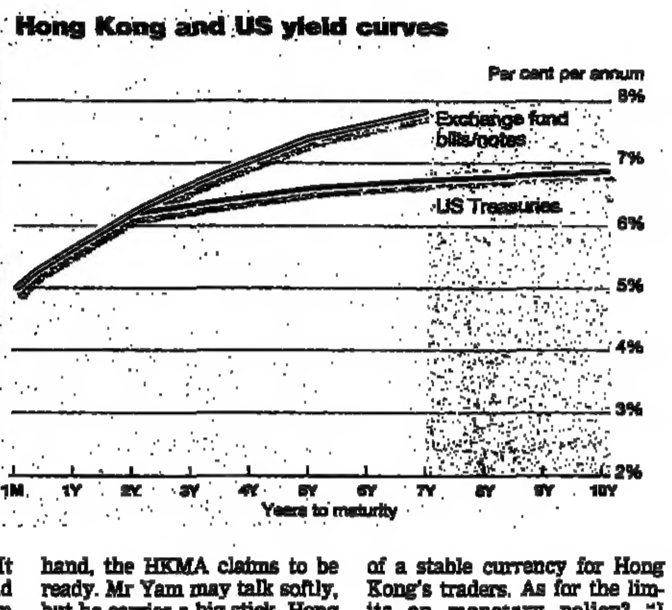
The message, says Mr Yam, is one of investor confidence ahead of the handover next year. And this has allowed the territory's *de facto* central bank to focus on broader issues.

"In the early 1980s we were involved in fire-fighting, rescuing banks and stabilising the currency. In the late 1980s we moved on to fire prevention," he says, referring to a re-organisation of Hong Kong's monetary system which granted a strong supervisory and managerial role to the HKMA. "Now we are in a different mode, to try to develop Hong Kong as an international centre."

Despite the present calm, however, pitfalls lurk on the path to such longer term goals. Political or economic shocks relating to the handover could quickly change investor sentiment, while speculators might be tempted to test the peg. "We are going to have a run on the currency later this year if my hedge-fund friends are to be believed," says Mr William Overholt, regional managing director of Bankers Trust.

Some economists criticise the peg, arguing that the system forces adjustments to be made through the economy rather than the exchange rate. In its annual report this year, the Asian Development Bank noted that the mechanism provides little scope for an independent monetary policy. It concluded the system would "clearly need to be reviewed in the context of future relations with China".

Joseph Yam, chief executive of the Hong Kong Monetary Authority



Although the ADB stressed it was not calling for the link to be replaced, private economists point to the potential for growing strains. "Sovereignty is being transferred to China, but monetary sovereignty lies with the US," says one investment banker. "This matters because China is now Hong Kong's biggest economic partner."

Should speculators try their hand, the HKMA claims to be ready. Mr Yam may talk softly, but he carries a big stick. Hong Kong's foreign currency reserves totalled US$59.8bn at the end of March, which combined with the government's healthy budget position, has helped deter assaults. Mr Overholt at Bankers Trust believes speculators would find it hard to sustain a challenge against the Hong Kong dollar. "I think they would lose a lot of money," he says.

Mr Yam sees no economic justification for an attack on the peg, stressing the benefits of a stable currency for Hong Kong's traders. As for the limits on monetary policy? "I don't mind having him in charge," says the HKMA chief, gesturing to a photograph of Mr Alan Greenspan, chairman of the US Federal Reserve.

Of greater significance is China's backing for the currency peg, which underpins its growing commercial interests in the territory. Mr Chen Yuan, deputy director of the People's Bank, China's central bank, last week indicated that Beijing would support the Hong Kong dollar in case of speculative attack. One of his senior colleagues also sought to reassure Hong Kong, flatly rejecting the notion that China could plunder the territory's financial resources.

While autonomy is crucial in monetary and financial management, economic integration – and Hong Kong's role as a conduit of funds – is vital for the territory's future as a financial centre. Hong Kong is the natural centre to supply China's capital needs, estimated by the World Bank at more than US$700bn for infrastructure alone over the next decade. But work needs to be done in improving financial markets. "We don't have a very efficient system in China, or for the region as a whole," says Mr Yam.

To this end Hong Kong is pursuing plans to deepen the territory's debt market, including the creation of a mortgage corporation and a compulsory pension scheme. Mr Yam is pushing proposals for an Asian bond clearing and settlement system to help stimulate the regional market.

"It is the same with physical infrastructure, like roads and airports," says Mr Yam. "Sometimes you can't wait for the private sector. You need governments and central banks to start things off."

John Ridding

ASIA-PACIFIC NEWS DIGEST

Matra quits Taipei metro

Taiwan's only mass rapid transit system broke down in Taipei yesterday after the French builder Matra Transport pulled its officials out of the country in a payment dispute with the city government, officials said. The elevated Mucha Line stopped operations for six hours and reopened only after one of its two controlling computers was repaired, a spokesman of Taipei Rapid Transit said.

Mr Chen Chao-wei, transit company president, said Matra had responsibility to repair the computer and a spare system which broke down at the same time. If it did not do so, the city government "would sue the French builder in France". Matra had said it was pulling its officials out of Taiwan to "protect the company's interest and cut expenses," after talks with Taipei's Department of Rapid Transit Systems failed over final payment and a performance bond.

Matra demanded final payment and a return of the T$500m ($18m) performance bond it deposited to guarantee it would complete the metro system. But the rapid transit department argued some defects remained that needed to be worked out before it would give Matra final payment and the bond. When the talks broke down, the department foreclosed on the bond, and Matra announced its pull-out. *AFP, Taipei*

Thai inflation declines again

Thailand's inflation rate declined for the third straight month in May, with prices rising at a year-on-year rate of only 6.1 per cent, the commerce ministry reported yesterday. This rate compares favourably with first-quarter price rises averaging 7.3 per cent and April's 6.9 per cent. Analysts were impressed by the decline, because food prices, the driving force behind inflation for more than a year, often leap in May. But food prices rose only 9.1 per cent year-on-year then, against 10.4 per cent in April.

If last year's flooding is not repeated, the annual inflation rate is expected to approach the finance ministry's 5.5 per cent target but not the central bank's target of 4.9 per cent. May's inflation rate may well indicate the central bank's tight money policy has taken a firm hold on prices. Inflation reached a four-year high of 5.8 per cent in 1995. The current account deficit in March, the last month to be reported, was a five-month high of Bt35.5bn ($1.4bn). *Ted Bardacke, Bangkok*

Seoul scandal hits bourse

The Seoul bourse yesterday fell 1.2 per cent as prosecutors claimed several officials at South Korea's Securities Supervisory Board were allegedly involved in a corruption scandal. The Seoul general share index declined to 897.22 following Sunday's arrest of Mr Paik Won-ku, SSB chairman, on bribery charges. Concerns that an expanded investigation would damage the market were eased by an announcement from prosecutors that finance ministry officials who deal with stock regulation had been cleared of any wrongdoing.

Prosecutors have not offered many details in the first disclosed case of alleged corruption involving the SSB, the main government agency that oversees the Seoul bourse. The only specific charge brought against Mr Paek is that he allowed a small telecoms company to be listed on the exchange in return for an alleged payment of Won10m ($12,690). More than 200 companies are seeking a listing, but the SSB has restricted the number of approved share offers because of fears that too many would soak up liquidity in the market and depress share prices. *John Burton, Seoul*

Official raid irks investors in Vietnam

By Jeremy Grant in Hanoi

Foreign companies operating in Ho Chi Minh City have been unsettled by a surprise raid on the offices of Hong Kong-based investment group Peregrine Investment Holdings last week by Vietnamese finance ministry officials.

The move is understood to be part of an investigation into the company's activities. Mr Nguyen Trung Truc, Peregrine's managing director in Ho Chi Minh City, said the officials had turned up without warning at the company's premises and those of companies associated with Peregrine last Thursday. They spent four hours examining documents, some of which were confiscated. "We've been assured by the people concerned that it's a normal visit," he said yesterday.

Businessmen in the southern commercial hub say it may be part of a wider campaign to check whether foreign representative offices are operating legally. Such checks are routine, but the fact that the inspectors gave no warning has caused some alarm in the business community.

Most foreign companies in Vietnam open a representative office as a first step before moving ahead with planned projects.

Under Vietnamese law, trading or booking business through the representative office is banned.

The authorities periodically uncover cases of abuse and have closed offices operating illegally. Most are run by Asian companies, particularly ethnic Chinese businesses using Vietnamese companies as business fronts.

■ Vietnam has drafted tough regulations designed to clamp down on the Internet only weeks ahead of a Communist party congress at which access to information by its citizens and increased foreign influences are to be high on the agenda.

Foreign and Vietnamese businesses would be allowed to offer Internet services but would have to register with the country's telecoms authority, the Directorate General of Posts and Telecommunications (DGPT).

The DGPT would close any service that violated conditions in the draft, including a clause whereby the provider must ensure "effective technical filters to deter adverse information flows from abroad penetrating into Vietnam". Inspections from the interior ministry would be mandatory.

Draft rules are rarely altered substantially and are considered a reliable indication of final government policy.

Many in the Vietnamese leadership fear the use of the Internet to advance the cause of "peaceful evolution", a term Hanoi uses to refer to alleged subversion by western countries.

Sri Lankans pray for rain as hydro-power shortage grows

Energy crisis has hurt growth prospects, writes **Amal Jayasinghe**

Sri Lanka, in the grip of an unprecedented energy crisis, has stopped late night television shows in an effort to encourage people to go to bed early.

Furthermore a daily six-hour power cut will be increased to eight hours from today to save electricity and avert a total blackout.

All TV stations, including 24-hour private channels, have been asked to stop transmissions two and a half hours before midnight.

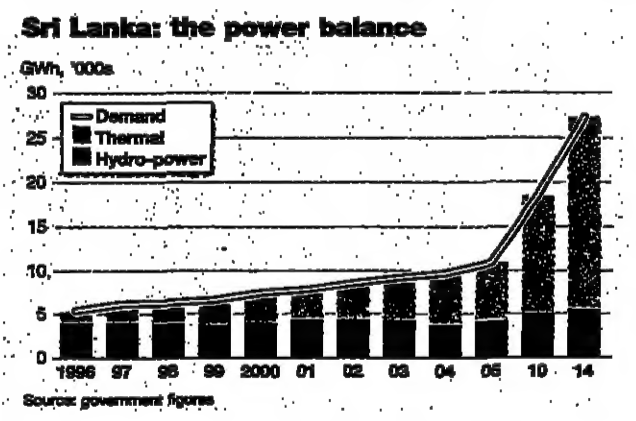
Electricity-guzzling air conditioners and neon signs have been banned and the country has for the first time advanced the clock by one hour to save daylight.

Private analysts said the power crisis was a severe blow to industries and the government would be lucky if the country was able to achieve a 3 per cent GDP growth this year, against an earlier forecast of 5-6 per cent and compared with 5.5 per cent last year.

Compounding the problems of the power crisis was a four-day strike by electricity workers demanding a reversal of government plans to sell off state-run public utilities.

The work stoppage plunged the country into a total blackout, crippled water and fuel distribution and badly hit hospitals for four days till Saturday.

However, the action also helped save some water in reservoirs feeding hydro-electricity stations.



"The energy crunch is far more serious than a terrorist attack in the capital," said Mr Ken Balendra, chairman of Sri Lanka's leading private sector group, John Keells Holding. "The damage to the economy must be enormous."

At the root of the energy crisis is the country's over dependency on hydro-electricity. The reservoirs have hit rock bottom because monsoon rains failed earlier this year while demand surged – making the country more and more vulnerable to ever changing weather patterns.

Underscoring the situation, the Ceylon Electricity Board (CEB) last month commissioned Buddhist monks to pray for rain.

Halfway through, workers went on strike, demanding an end to the sale of Lanka Electricity Company (Leco), the state electricity utility's distribution subsidiary.

But the privatisation authority said it was not going ahead with the Leco sale because the highest bid of $27m (£17.5m) was $9m short of the minimum floor price – a decision unrelated to the lightning strike.

Even as the work stoppage continued, engineers had joined "in spirit" to pray with the saffron-robed monks who launched the prayer session at the country's main hydro-electricity station in the central region.

"If the gods don't deliver by June, we are doomed," a spokesman for the CEB engineers union said.

"We want the country to pray for rain because there is nothing else we can do. We, too, are praying every day."

Sri Lanka's current installed electricity generating capacity is 1,385 MW and only 250 MW of that comes from thermal power generation stations. Engineers say the thermal backup is woefully inadequate.

"We have been sentimental about hydro-power," said Mr Leslie Herat, Electricity Board chairman.

"We can no longer depend on the weather. The answer is thermal power and we are moving in that direction."

Mr Herat said the country needed to switch to thermal power as the demand for electricity rose. Only 38 per cent of Sri Lanka's 17.05m people currently have electricity in their homes.

Seven power generation projects are planned with only two being hydro-power stations and the total investment in the next six years is estimated to be about £1.5bn.

Although the share of hydro-electricity is now 80 per cent, it is estimated to drop to 50 per cent by the turn of the century and to 20 per cent in 18 years with installation of more thermal stations.

In the meantime, industry has taken a severe beating due to the power shortfalls since March and triggered a run on small portable electricity generators.

"People are out of work, their pockets are affected," opposition leader Ranil Wickremesinghe said.

"This is a national crisis and the government has totally mishandled the situation."

India 'pledged to reform and high growth'

By Shiraz Sidhva in New Delhi and agencies

Mr P. Chidambaram, India's new finance minister, yesterday underlined his adherence to economic reform with a pledge to achieve "a firm and pragmatic commitment to high growth".

The minister, widely admired by the markets as a standard bearer of market forces and economic liberalisation, said the new United Front government, sworn in at the weekend, would seek "fiscal prudence and austerity, continuation of tax reforms and policies to attract capital, domestic and foreign, to achieve higher levels of investment".

India's new coalition government, comprising 13 partners including the Communist Party of India, will today unveil a detailed paper on its main policy issues. Despite declarations of unanimity on economic policy, underlying tensions are bound to surface on issues such as mines privatisation, which the CPI has strongly opposed.

As a former commerce minister in the Congress government defeated in last month's general election, Mr Chidambaram was a strong advocate of privatisation.

Yesterday, however, Mr Chidambaram said consensus existed on economic issues within the governing United Front alliance as well as in the Congress party, which is supporting the United Front from the outside.

The government was committed to channelling the bulk of new investment into infrastructure projects and restructuring public sector companies, he declared.

This is likely to cause friction within the coalition as the communists and their left allies oppose large-scale job cuts within state-owned industries.

■ An Indian court yesterday began hearing a lawsuit filed by a leftist trade union demanding the scrapping of a $2.9bn power project being put up by Enron of the US. The Bombay High Court deferred the next hearing to June 19 and asked the consortium led by Enron Development to make a written reply to the suit filed by the Centre of Indian Trade Unions (CITU).

The judges also said any work restarted at the site in the western state of Maharashtra, of which Bombay is the capital, would be at the company's own risk and cost, and subject to the outcome of the suit.

Enron lawyers said delays were costing Rs8.6m ($240,000) every day in interest and other charges. The project was billed as the largest single private investment in India after the market reforms of 1991. It was axed by Maharashtra's government but the decision was later rescinded.

US group to open $50m plant in N Ireland

By John Murray Brown in Dublin

Northern Ireland has secured its first big investment from outside the UK since the Irish Republican Army ended its ceasefire in February. It came yesterday with the announcement of a £33m ($50.2m) project by Copeland of the US, the world's biggest manufacturer of compressors for the air conditioning and refrigeration markets.

Copeland, a subsidiary of Emerson Electric, the Missouri-based electrical engineering group, is to set up a factory in Cookstown, and expects to start construction in August and production early next year with an initial workforce of 300.

The investment is the latest in the series of moves by Emerson Electric to increase its local presence following its acquisition in 1994 of the family owned F.G. Wilson, an engineering group which is Europe's largest manufacturers of diesel generators.

There is speculation locally that F.G. Wilson and Caterpillar, the Illinois earthmoving machinery group, could establish a joint venture to manufacture in Northern Ireland.

In an effort to attract this project to west Belfast, Sinn Féin, the IRA's political wing, has been in contact with the company and with Mr Alan Hevesi, comptroller of the New York City pension fund, which has a large holding in Emerson Electric and Caterpillar.

This is the first time Sinn Féin has actively lobbied for an inward investment project and underlines the improved profile that Northern Ireland now enjoys in the US, from where there has been a 60 per cent increase in the number of business inquiries over the last three years.

Mr John McGuckian, chairman of the Northern Ireland Industrial Development Board, said the investment by Copeland was "a very substantial endorsement of Northern Ireland."

Mr Robert Novello, chairman of Copeland, said the investment in Northern Ireland would allow the company to meet the growing demand of its European customers. Last year the IDB managed to attract a record 63 projects, more than half of which were greenfield investments, with the promise of more than 4,800 jobs.

Mr Bruce Robinson, the IDB chief executive, said the target was to create between 12,000 and 18,000 new jobs by March 1998. The planned Cookstown facility is the company's third big expansion in the past 6 months. The company said yesterday it intended to announce further investments in Asia and north America "in the near future". Copeland had worldwide sales of about $1.2bn in 1994, and employs 5,500 people, supplying compressors to most of the world's leading refrigerator and other "white" electronic goods manufacturers.

The UK's first regional technology plan was launched yesterday in Wales with the aim of making companies more competitive by stimulating innovation, Roland Adburgham writes in Cardiff. Wales is one of eight regions, and the only one in the UK, to have been invited by the European Commission to draw up such a plan. Funding is being provided by the commission and the Welsh Development Agency, which is project manager.

An action plan to implement the strategy has been drawn up after two years of consultation with more than 600 companies and organisations to identify the innovation issues facing Wales.

Six flagship projects are to be launched immediately. These include a technology and innovation competition; support for the opto-electronics sector to build global alliances; a funding programme for small and medium-sized companies wanting to upgrade their technology; and a network of multimedia/information technology advice centres.

Tories run short of Welsh speakers

By George Parker at Westminster

The resignation of Mr Rod Richards, a junior Welsh office minister, after allegations of an extramarital affair has robbed the region of its only Welsh-speaking minister.

Yesterday Mr John Major, the prime minister, appointed Mr Jonathan Evans to the Welsh Office. Although Mr Evans represents a Welsh district he does not speak the region's ancient language.

The departure of Mr Richards has caused the government acute embarrassment in Wales.

This month the House of Commons is expected to approve an historic measure allowing the Welsh language to be spoken for the first time in parliamentary business when the Welsh grand committee of the House meets in Wales.

In future ministers who do not speak Welsh will have to listen to such proceedings through an interpreter. The government will also be unable to provide a minister to answer questions on Welsh-language television.

Mr Evans is one of only six Conservative MPs representing Welsh constituencies. Some political analysts believe the Conservatives could be wiped out in Wales at the next election.

The Welsh office is proving one of the hardest government departments for the Conservatives to staff. Mr William Hague, the current senior minister representing Wales, comes from the Yorkshire region of northern England.

Other ministers who have quit the government during Mr John Major's premiership include:

1992 Sept: David Mellor, national heritage secretary, quit after revelations about affair with actress and reports that daughter of an official of Palestine Liberation Front had paid for Mellor family holiday.

1994 Jan: Tim Yeo, environment minister, was revealed to have fathered a child outside his marriage. Said his private life had not affected his ability to do his job.

Jan: Lord Caithness, a junior transport minister who resigned on the day his wife committed suicide. Her parents said he had been having an affair with a family friend.

Jan: Alan Duncan, parliamentary aide to a health minister, lent elderly tenant of municipally owned house cash to buy under government discount scheme open only to tenants. Ownership of house was subsequently transferred to Duncan.

Feb: Hartley Booth, 48-year-old aide to a Foreign Office minister, admitted "kissing and cuddling" former House of Commons researcher aged 22. Booth married with two children.

May: Michael Brown, unmarried Conservative party whip, rejects newspaper allegations of "homosexual triangle" involving him, student and government official.

July: Ministerial aides Graham Riddick and David Tredinnick alleged to have accepted £1,000 ($1,540) to table question to ministers in House of Commons. Allegation was made by newspaper reporters posing as businessmen keen to obtain government information relevant to their business interests.

Nov: Tim Smith, a Northern Ireland minister, admitted breaking parliamentary rules over disclosure of business links with Harrods.

Nov: Neil Hamilton, corporate affairs minister, expressed regret that he had not declared stay in Paris Ritz at expense of Harrods owner Mohammed Fayed.

Feb: Robert Hughes, junior science minister, married with three daughters, admitted to affair with former secretary.

Sir Ron Hadfield, chief constable of West Midlands police, displays a 9mm Uzi submachinegun seized in a police raid earlier this year. His and other police forces throughout Britain yesterday began a month-long firearms amnesty ordered by the government after the Dunblane massacre in Scotland in which 16 schoolchildren and their teacher were shot dead. Michael Howard, home secretary, said: "If we can get these weapons out of circulation, off the streets, out of people's homes and into police stations where they can be safely disposed of, that's something very much to be welcomed."

Agents protest at demand for help for stricken Names

By Ralph Atkins, Insurance Correspondent

Lloyd's of London last night faced a possible revolt from agencies running insurance syndicates at the market over proposals to help ruined Names as part of the Lloyd's recovery programme.

Agents protested that they were being "bounced" into a deal which could see them paying tens of millions of pounds extra to protect the homes and incomes of Names devastated by losses totalling more than $13bn in recent years.

The proposals would "top up" help available to all Names under the Lloyd's recovery plan which includes a £3.1bn ($4.7bn) out-of-court settlement offer to lossmaking and litigating Names. Names are individuals whose assets have traditionally supported Lloyd's.

Agents had expected to contribute £200m to the plan, but Mr David Rowland, Lloyd's chairman, is seeking a "material" increase to help the worst affected Names.

Lloyd's also faces difficulties on another flank. Hardline Names are collecting signatures for an extraordinary general meeting in an attempt to force agents to pay substantially more than envisaged by Mr Rowland. They argue that the latest concessions are inadequate.

Resolutions are still being considered, but the Lloyd's

LLOYD'S
LLOYD'S OF LONDON

Names Associations' Working Party (LNAWP) may use an extraordinary general meeting to propose that agents contribute an additional £200m. It is also floating the idea of a 2 per cent "turnover" tax on the future Lloyd's market, raising at least £100m a year.

The latest rows are unlikely to derail the Lloyd's recovery plan, which is winning broad support among Names. But they presage a bumpy few months ahead of the plan's implementation, due in August. Even if LNAWP's resolutions were passed, they would not be binding.

News of the extra help for ruined Names pledged by Mr Rowland came in a letter published yesterday and signed by leading Names' representatives following a meeting at Lloyd's last week.

In response, Mr Paul Archard, managing director of Murray Lawrence, one of the largest agencies at Lloyd's, said: "I'm amazed to have read it in the papers since no one has agreed it with me or any other agent."

Several leading Lloyd's agencies expressed anger privately at what they said was a "political game" being played by Mr Rowland, who was making commitments not discussed with them. Recent meetings between Mr Rowland and agents are understood to have been stormy.

But Names' representatives said the extra help being offered to ruined Names was an important step forward. More than 4,500 Names have applied for means-tested assistance as part of Lloyd's recovery plan.

'We are the last UK-based engineering industry that's world class,' says BAe executive

Aerospace sector warns of heavy job losses

By Michael Skapinker, Aerospace Correspondent

British aerospace companies warned yesterday that their industry may have to shed 30,000 jobs.

Launching a campaign to regain international market share lost since 1980, the Society of British Aerospace Companies said that only 100,000 of the industry's 130,000 jobs were sustainable in the long term.

Britain's international market share had fallen from 13 per cent in 1980 to 9 per cent last year. The society called on the government to fund half of a £200m ($308m) programme to help increase the British industry's competitiveness.

Mr Norman Barber, the chairman of Smiths Industries Aerospace, said UK companies had already taken action to improve their efficiency. The industry's productivity growth since 1980 had averaged 12 per cent a year.

Labour costs in the UK industry were far lower than in competing nations, he added. UK costs were 58 per cent of those in the US and 52 per cent of those in Germany.

Mr Barber said, however, that the UK had lost market share because of aggressive marketing by competitor countries and because of weak support by the British government. The level of employment in the UK industry had fallen from 250,000 in 1980 to 130,000.

The UK aerospace industry nevertheless remained one of the world's most powerful, with sales of more than £10bn a year, equivalent to 2.2 per cent of gross domestic product. Aerospace made a net contribution of more than £2bn to the UK balance of payments. Three aerospace companies – British Aerospace, Rolls-Royce and GEC – appeared in the list of the UK's top five exporters. In spite of the fall in employment, the industry continued to recruit 1,500 graduates a year.

Mr Mike Turner, BAe's head of commercial aerospace, said: "We are the last UK-based engineering industry that's world class."

Mr Turner added that returning the UK industry to an international market share of 13 per cent would require the combined efforts of the industry and the government. But he said productivity gains would result in the loss of a further 30,000 jobs.

Mr Turner said the government should ensure that its defence procurement policies provided greater support to the UK industry. "We want some bias towards the UK. There will be occasions when the governments needs to buy off the shelf, but if we do it too much we will end up with a US monopoly."

The society said the industry was putting £20m into research and development projects this year. It intended to build this up to £100m by the end of the decade and called on the government to commit an equivalent amount.

Companies intend to use the money to focus on areas in which the UK is already strong. These include the building of wings, engines, aircraft undercarriages and cockpit equipment. The society is also working to improve co-operation between manufacturers and component suppliers.

Official report admits that feedstuff controls 'have had less impact than intended'

Minister opens full defence of BSE measures

By Caroline Southey in Luxembourg

Mr Douglas Hogg, the British agriculture minister, went on the offensive yesterday at a meeting of European Union farm ministers, defending Britain's plans to eradicate BSE or "mad cow disease" and pledging to take tougher measures against dangerous feedstuffs.

Mr Hogg presented EU ministers with the most detailed account yet provided by the British government on what it has done and plans to do to wipe out the disease. The 121-page document also gave a blow-by-blow account of where policies have failed in the past, offering explanations as to why the disease has persisted in British herds.

Although the paper contained only two new pieces of information – the measures on animal feed and a small change in the selective slaughter proposals – Mr Hogg clearly hoped its presentation would help overcome scepticism in the EU about Britain's commitment to eradicating BSE.

Mr Hogg said the British government would make it a criminal offence for anybody to possess animal feed made from mammalian meat and bonemeal.

The measure would come into force in two months, giving farmers and feedmills time to dispose of all stocks.

The report said the extra measures relating to animal feed were intended to ensure "100 per cent compliance with the new rules". In March the government banned animal protein from feed for pigs and poultry – it has been banned for cattle since 1988.

"Action on animal feed is still believed to be the most effective way of eradicating BSE," the report said, admitting that the "controls in the UK to date have had less impact than intended".

The report summed up what the government knows about BSE and gave details of the main thrusts of policy – such as the exclusion of ruminant protein from cattle feed, ensuring that parts of carcasses which could convey BSE do not enter the human food chain.

Mr Hogg said 80,000 cattle had been slaughtered since the beginning of May as part of the government's culling scheme for animals over 30 months. The total will reach 1m by the end of the first year of operation.

Two weeks ago the government said it would extend its separate selective slaughter policy – which is based on tracing and destroying cattle born at the same time and in the same herd as those which have contracted the disease – to cover all future identified cases of BSE.

It made clear yesterday it had withdrawn an earlier proposal to allow farmers the choice of confining rather than killing animals which have the disease.

The government's report said research left open the question of whether "cattle-to-cattle transmission, notably maternal transmission, can or cannot occur at all".

Mr Hogg added that it had "not been possible to establish vertical transmission" but the evidence suggested that if it did happen it would not "prevent the disease from dying out" given the measures currently being taken.

Host cities hope soccer and tourism prove profitable mix

By Christopher Brown-Humes in London

The organisers of Euro 96 who boasted last week about the "phenomenal" demand for tickets admitted yesterday that the special telephone "hotline" set up to handle inquiries was incapable of coping with the late rush of demand, Patrick Harverson writes. Yesterday many callers to the hotline in Britain were greeted by a continuous tone indicating the number was unobtainable. Mr Andrew Walpole, spokesman for Euro 96, explained this was because the telephone system set up by British Telecommunications and Synchro Systems, the software company handling ticket sales, could answer only 150 calls at a time.

Euro 96 England

The police officers and taxi drivers of Greater Manchester can now speak four languages – or, at least, they should able to say "hello" in German, Italian, Russian and Czech after recent coaching. It is hoped the tuition will help make thousands of fans from those countries feel more welcome when they come to Manchester for Euro 96 this month. The scheme is integral to the English Tourist Board's broader Welcome Host programme, which aims to maximise the tourism benefits of the tournament for all eight cities where matches are taking place.

The ETB is expecting 250,000 overseas visitors, a healthy addition to the 2m it usually expects in June. It believes the influx will generate additional spending of around £116m ($179m) on top of the £1.1bn expected for the month.

The cities which will fare best are those hosting four teams – rather than three – and staging a semi-final. Hence Manchester is expected to attract around 40,000 overseas visitors against Liverpool's 30,000.

Nottingham, which is host to Croatia, Portugal and Turkey, may draw only 22,000, however, because ticket sales in these less affluent countries have been lower.

Manchester calculates that the championships could be worth as much as £30m to the city, a huge benefit for local hotels, restaurants, shops and taxi drivers. The biggest chunk of money will be spent on accommodation (33 per cent of the total); followed by restaurants and pubs (24 per cent); shopping (19 per cent); travel (14 per cent) and cultural attractions (5 per cent). As much as half of the total will be spent by visitors from outside Britain.

Manchester hotel occupancy, normally 75 per cent in June, is expected to be almost 100 per cent, according to the Greater Manchester Visitor and Convention Bureau. The city is hiring university accommodation.

But many small hotels and guest houses in host cities are far from fully booked. This has been blamed on unsold tickets, poor ticket distribution in other countries, negative publicity about expensive travel packages and a spate of late cancellations. The big hotels say they are charging only their "rack" rates – their highest published charges – but this still leaves prices higher than normal discounted levels.

One of the biggest problems has been converting a visit into an overnight stay. Manchester, for example, although forecasting 40,000 visitors from outside Britain, expects only 10,000 overnight stays. Where there are good air links, most fans will fly in and out on the same day.

Mr Arend de Roever, owner of Roever, an Amsterdam-based travel agency which is arranging travel for the Dutch national team, says most Dutch fans will not be staying on after the Dutch team's matches in London and Birmingham. This mirrors the pattern four years ago when Sweden hosted the event.

Mr De Roever is sceptical about mixing soccer and tourism, arguing that many fans are not as interested in sightseeing as Euro 96 organisers would like to think.

Host cities see long-term tourism spin-offs from the tournament. Mr Tony Barker, of Leeds council's leisure services department, says: "This is not just about a three-week tournament. This is the best springboard we have had to promote the city for years." Hence the invitations to many non-UK journalists to visit Leeds.

The tournament will also have an impact on travel plans of UK residents. Home & Overseas, Britain's largest travel insurer, calculates that 12 per cent of the population are such soccer enthusiasts that they plan to give up their usual trip abroad to stay in the UK for the entire event. The same number, it says, will aim to be out of the country – specifically to avoid Euro 96 and everything to do with it.

New ball game, Page 16

UK NEWS DIGEST

Investment at peak in Scotland

Scotland yesterday said that 1995-96 had been another record year for inward investment. Locate in Scotland, the official inward investment agency, achieved its highest ever figure for the number of planned jobs that would be created or safeguarded by investment from outside Scotland. However, the number of planned inward investment projects in the financial year fell from the 1994-95 figure of 97 to 84, and the total planned investment was slightly down at £981m, from £1.12bn in the previous year. The jobs total was boosted by the decision of Chung Hwa, a Taiwanese electronics company, to establish a £260m plant making cathode ray tubes for computers and televisions in Lanarkshire, which will eventually create 3,300 jobs. This made it Scotland's biggest inward investment ever in terms of employment.

[illegible] in Scotland

[illegible]	Projects	Investment	Jobs: new	safeguarded
[illegible]	59	£390.9m	4,857	1,145
[illegible]	66	£352m	5,342	2,717
[illegible]	95	£587.6m	7,688	3,384
[illegible]	97	£1.127bn	9,114	3,215
[illegible]	84	£981	10,136	2,424

Source: Locate in Scotland

● The Scottish plant of International Business Machines is losing its worldwide responsibility within the group for developing monitors for personal computers. The move coincides with rising concern in the Scottish electronics industry at declining levels of development spending. IBM said it would now meet its product requirements from outside suppliers.

James Buxton, Edinburgh

Philips plant sought

The West Midlands yesterday stepped up its efforts to win a £2bn ($3.04bn) semiconductor factory from Philips, the Dutch electronics group, by publishing detailed proposals for the scheme. West Midlands Development Agency, which markets the region to inward investors, applied for planning approval for a 57ha plant on a greenfield site to the north-east of Birmingham. It said plans for the plant – which could create up to 4,000 jobs – were provisional.

Philips confirmed it was considering the UK for a semiconductor plant, but said that no final decision had been made. The Midlands site is among several in Europe which Philips is examining as part of its plans to expand output of semiconductors.

Richard Wolffe and Stefan Wagstyl

Output declines sharply

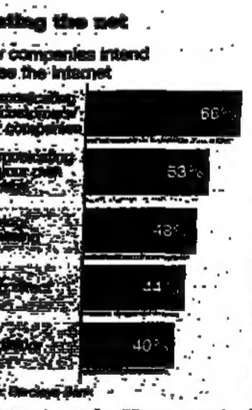
Manufacturing activity experienced its biggest decline for more than 3½ years last month as factories reined in output and cut jobs in the face of declining order books and a build-up of unsold goods. Companies making plant and machinery raised output only fractionally while producers of components cut output sharply, according to yesterday's monthly survey by the Chartered Institute of Purchasing and Supply.

But weakness in these two areas was intensified for the first time this year by a sharp slowdown in output and demand for consumer goods. Although the consumer goods sector remained the strongest area of the economy, its poor performance last month contrasts with the buoyant conditions earlier this year. It suggests that consumer demand, which the government expects to rebound strongly in 1996, may still be fragile.

However, separate figures yesterday showed the amount of notes and coins circulating in the economy continued to grow rapidly last month – providing evidence that conditions on city streets remain healthy. The Bank of England said notes and coins grew at an annual rate of 6.1 per cent last month, compared with 6.3 per cent in the year to April.

Graham Bowley, Economics Staff

Internet worries charted



British companies are concerned about the lack of security on the Internet, although most see the global electronic network as a business opportunity. In a survey of 200 of the UK's top 1,000 companies commissioned by Barclays Bank, nearly three-quarters said they were concerned about the Internet's poor security. However, 81 per cent said they saw the Internet as a business opportunity and more than a third already have an Internet site. Of those without a site, 42 per cent said they would need access by 2000. With the growth of Internet use at work, 55 per cent of companies were worried that employees would "surf the Net" in company time. About one-third were concerned that the Internet would lead to increased competition in their markets. Two-thirds said they would use the Internet to communicate with customers and other companies while 48 per cent said they would use it to order and purchase goods or supplies. About 40 per cent would use it for advertising and 44 per cent planned to sell.

Motoko Rich, London

Airline strike closer

A summer strike by British Airways pilots moved a step closer after management-union talks failed. The pilots' trade union union immediately issued strike ballot papers to its 3,000 BA flight crew members. The result will be known on July 3. Each side blamed the other for the failure of the talks. BA management said a date and time for talks had been agreed but then the union had later said it did not want to talk. But Mr Chris Darke, the union's general secretary, said BA had "failed to accept" an offer for talks. "Negotiations on the current pay round have dragged on for six months without a satisfactory offer concerning issues particular to flight crew," said Mr Darke.

PA News

UK NEWS: THE HIGH-TECH HIGH FLIERS

Science centres show signs of the growing entrepreneurial spirit

By Clive Cookson, Science Editor

Brighton has never been a hotbed of science-based industry. The Sussex coast is known for leisure, education and financial services – but not high-tech. So local authorities and universities were rather nervous about the prospects for the Sussex Innovation Centre which they opened last month as a home for scientific enterprises.

They need not have worried. The centre – on the campus of Sussex University – has already attracted 10 science-based businesses, including several started by academic researchers. Mr Derek Hardcastle, general manager, says the level of interest from potential tenants is so high that the centre could be full, with 40 businesses in residence, by the end of the year.

The instant success of the Sussex Innovation Centre is one sign of the growing entrepreneurial spirit among Britain's scientists and engineers. Recent publicity about a new breed of scientific entrepreneur has focused on a few quoted biotechnology, electronics and information technology companies, whose stock market performance has made a fortune for their founders.

But the phenomenon is deeper and more widespread than that. More and more scientists are being attracted by the risks and rewards of working outside the safe haven of large corporate and academic laboratories. Many set up on a science or technology park linked to a university. These property developments grew very fast during the 1980s and then got stuck on a plateau in the early 1990s. Now almost all of them are expanding again, says Mrs Chris Emery, administrator of the 48-member UK Science Parks Association.

There are two main sources of scientific entrepreneur: universities and existing companies. Some of the most promising start-ups contain people from both sectors.

Everyone agrees that academics are growing more entrepreneurial, as old prejudices about the sanctity of pure science fade away. So are their employers – universities are setting up their own businesses to take advantage of the increasing demand by industry to contract out scientific services and research.

Sir Derek Roberts, provost of University College London, says another factor is "that universities appreciate the opportunities they lost 10 or 20 years ago, when they gave away their intellectual property. They see companies making a lot of money out of research that they did then, and they are determined not to make the same mistake again."

At the same time, many leading scientists prefer to remain academics first and foremost, while working part-time as scientific directors of companies exploiting their discoveries. Professor Richard Friend, a physicist at Cambridge University's Cavendish Laboratory, is a non-executive director of Cambridge Display Technology, the company founded to commercialise his research into light-emitting plastics.

"The business skills that I don't have are present in and around Cambridge," says Prof Friend. "It is a huge burden to start a company or to transfer basic science out of the laboratory."

However, Mr Jeremy Fairbrother, bursar of Trinity College, Cambridge, and director of the Cambridge Science Park, says "the culture of academia is still to do research in the 'public good' arena. Academics who are commercially minded are in the minority."

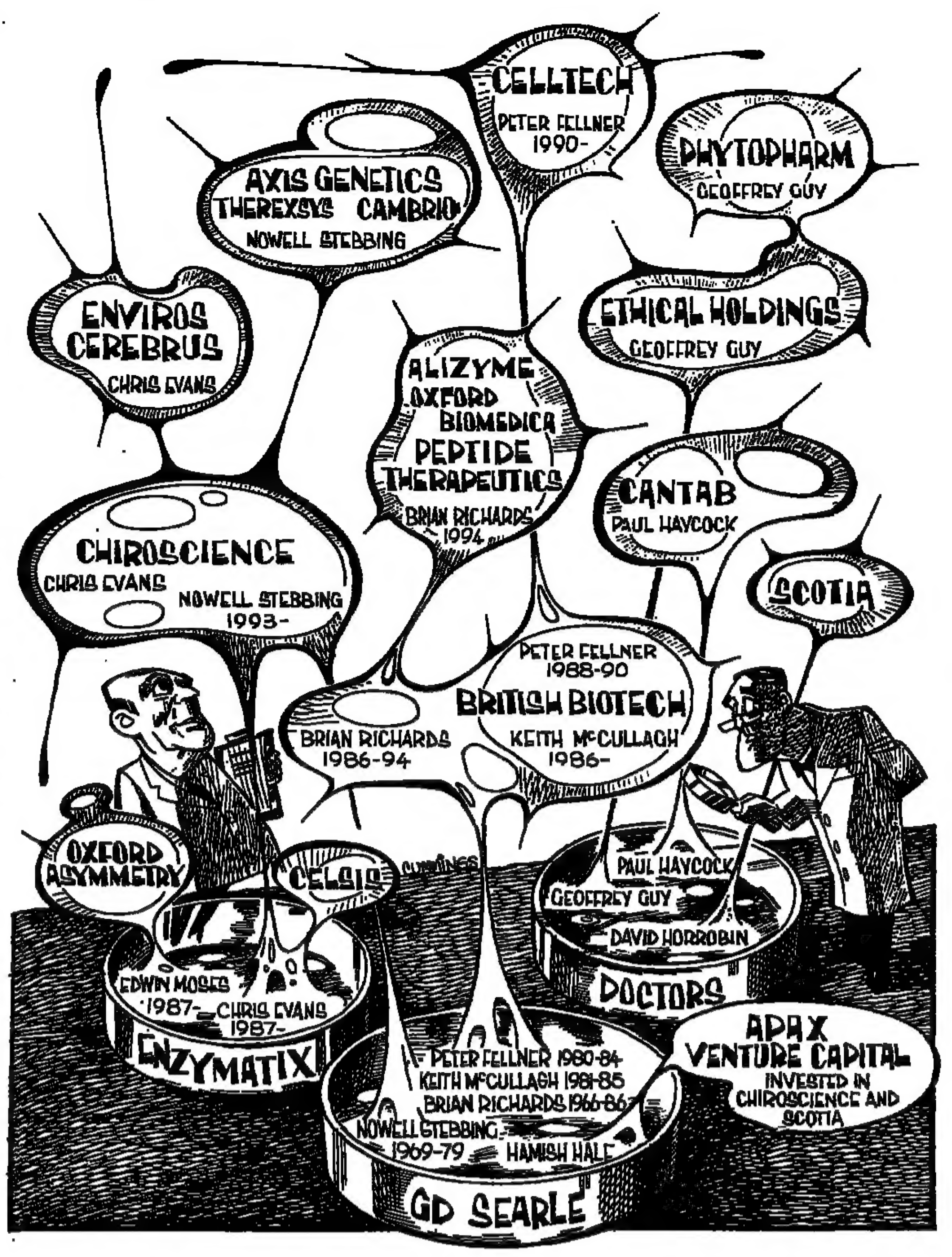
Dr David Owen, director of industrial collaboration for the Medical Research Council, has masterminded the recent spin-off of several ambitious biotech companies based on MRC-funded research (including Therexsys, Cambridge Antibody Technology and Prolifix) and he is working hard to get two more started: Cambridge Genetics and Ribotargets.

There are two main constraints, according to Dr Owen: too little funding available for new science-based ventures, and too few professional managers who specialise in helping scientists to start companies. He says the current wave of consolidation in the UK pharmaceutical industry, including redundancies among senior executives, will provide good managers for existing science-based companies but it will not help the newcomers much.

Observers of the international high-tech scene say that the UK is leading continental Europe in the creation of scientific entrepreneurs but still lags well behind the US.

A truly transatlantic view comes from Mr Peter Nomikos, a Greek engineer based in London, who is president and founder of Photoelectron Corporation, a Massachusetts electronics and medical devices company. "A very contagious entrepreneurial R&D culture has taken root over more than 40 years in the Boston area and in California," he says. "There is a very mobile pool of scientific talent and of investment funds, which does not yet exist in the UK. You are beginning to emulate it here but it will take time – maybe 15 years rather than 40."

In 2010, will people be talking about the Sussex coast as a cradle of high-tech business in the same breath as Route 128 in Massachusetts or Silicon Valley in California?



■ FINANCE

Start-ups turn to US for funding

By Paul Taylor

Historically, the City has had a chequered relationship with the British information technology sector, while high technology entrepreneurs have a somewhat jaundiced view of "the money men".

Unlike the US, where a thriving venture capital, analyst and broker community has developed on Wall Street, in Boston and California to advise and help fund high-tech start-ups, the UK has failed to develop a similar group.

As a result, technology entrepreneurs complain that the City "doesn't understand technology", is unwilling to fund high risk start-ups and lacks the vision required to see past the next set of results.

While in the City, institutional fund managers and bankers counter that small technology companies often fail to explain their strategies, are unwilling to accept management advice and too often deliver unwelcome suprises.

This, coupled with the much higher multiples that new issues, particularly hardware companies with "whizz-bang boxes" command across the Atlantic, helps explain why so many UK start-ups turn to US investment banks and the Nasdaq to make their stock market debuts.

Among the UK based companies to have taken the Nasdaq route in recent years have been Firefox Communications, a specialist network security software group, which was founded in 1989 in Solihull near Birmingham, and was floated last year for $100m, turning its three founders into millionaires.

More recently, Planning Sciences, a Wimbledon-based software company formed by a group of former Lucas Industries software engineers, floated on Nasdaq at $16 a share. Within a week, shares in the company which posted profits of just £700,000 on revenues of £8.4m, had risen to $26 a share, valuing the group at about $90m and putting the shares on a historic multiple of 80.

By contrast, Triad, the software and systems consultancy which floated in London in March and posted pre-tax profits of £2.1m in the year to March 31 on turnover of £11.7m, was valued at only £34m when it came to market at 135p a share.

Britain has built up a solid reputation for innovation in certain segments of the IT market in particular – including virtual reality, games software and data networking. As a result many successful start-ups have been snapped up by overseas predators even before they come to market.

However, for those entrepreneurs who have persevered, particularly those in the fast growing software and computing services, the outlook is beginning to look brighter.

Britain's three quoted virtual reality software companies, Division, Superscape and Virtuality, are market leaders and have performed well. A recent report on the overall sector produced by Mr Richard Holway, an independent analyst, notes that "there has been a major re-rating of software and computer computing services company valuations".

Last year the average historic price/earnings ratios of quoted companies in the industry jumped from 15 to 23. Meanwhile share prices increased by 80 per cent, nearly four times more than the FT-SE 100.

■ BIOTECH COMPANIES – By Daniel Green

'Sons of Searle' run most of the industry

Many claim credit for the growth of the UK biotechnology sector, whose 159 companies account for more than a quarter of the European total.

But few can hope to challenge the contribution of a US pharmaceuticals company which closed its UK research centre in 1985. The alumni of G.D. Searle now run most of Britain's biggest biotech companies.

There has also been an important contribution from UK academia. Britain's universities have pumped high quality graduates into Glaxo, Wellcome, Beecham and ICI (now Zeneca) – the UK's huge and successful drugs industry.

And the London Stock Exchange helped when, in 1992, it relaxed its rules on company flotations to allow lossmaking companies to float.

The story of UK biotechnology began in the mid 1960s. G.D. Searle had made a fortune in oral contraceptives. It wanted to open a UK research centre and expand into new medical areas. It recruited Mr Hamish Hale, a Glasgow doctor who had moved into research at the Imperial Cancer Research Fund where he had been one of the first to explore the new science of molecular biology.

"They gave me carte blanche to start a research team," said Mr Hale.

He took on London university lecturer Mr Brian Richards and they set out to recruit academic scientists who they felt were attuned to the world of business. Among those they found and promoted to top positions were Mr Nowell Stebbing, who joined in 1969, Mr Peter Fellner (1973) and Mr Keith McCullagh (1981).

These men created in High Wycombe, Buckinghamshire, a 350-strong laboratory, the biggest in the UK devoted largely to biological research. But Searle grew concerned that its policy was not leading to big-selling products, and when Searle was taken over in 1985, the UK research operation was closed.

Mr Richards and Mr McCullagh took the ideas they had developed at Searle and raised £2.5m from venture capitalists to create British Biotech.

Mr Fellner joined the board in 1988 but moved on in 1990 to run Celltech. Mr Richards left in 1994 and is now chairman of Peptide Therapeutics, floated earlier this year, and Alizyme, which is also planning to float.

Mr Hale, meanwhile, had gone to work for US biotechnology company Genzyme which had an energetic Welsh head of research, Mr Chris Evans. In 1987 Mr Evans obtained £1.4m from British Sugar to create a biotechnology company called Enzymatix. His marketing manager, Mr Edwin Moses, is now chief executive of the fast-growing company Oxford Asymmetry. When British Sugar pulled out of Enzymatix, Mr Evans split the business into Chiroscience, Celsis and Enviros.

So G.D. Searle deserves much of the credit for nurturing the people behind UK biotechnology. The key moment, according to Mr Jeremy Curnock Cook who advises the biotechnology venture capital funds at Rothschild, came when Monsanto shut its newly acquired UK laboratories.

"The demise of Searle's High Wycombe labs led to the creation of British Biotech which became a role model and inspired others to follow," he says.

■ IT COMPANIES – By Alan Cane

Seeking outside help is key to success

The lessons of the 1980s seem to have been learned. The UK's most promising high technology companies neither try to go it alone nor attempt to do everything themselves.

An example is Videologic, a Kings Langley based designer of chips and circuit boards capable of generating realistic three dimensional graphics images on personal computer screens. The company has recently agreed to supply its technology to Compaq, the world's largest PC manufacturer.

Videologic understands that the economies of scale necessary for success in the semiconductor business are difficult to achieve in the UK. It describes itself as a "chipless chip company", exploiting a technology alliance with NEC of Japan, one of the world's top chip manufacturers. Videologic designs the chips and boards, NEC manufactures and markets them and the UK company collects a royalty on each chip sold.

Advanced Risc Machines (ARM), a Cambridge-based chip designer, has a similar approach. Its microprocessors are small and low cost, providing high processing speeds with low power requirements. Seen originally as the ideal chip to power personal electronic gadgets such as games machines and personal digital assistants, they are enjoying new popularity as the favoured processor for "Internet appliances", low cost terminals giving easy access to the Internet. ARM licenses its technology to a broad range of companies including Digital Equipment, Texas Instruments, VLSI and Cirrus Logic of the US, Sharp of Japan and Samsung of Korea.

ARM is just one of a number of companies which have established Cambridge and its environs as a hotbed of UK technology. The list includes Ionica, the most radical of the UK's new telecoms operators, which connects homes and small businesses to exchanges through a fixed radio link.

Ionica contracted a number of innovative Cambridge companies including the Generics Group and Symbionics to develop the wireless technology. It has since signed a manufacturing deal with Northern Telecom of Canada; the two companies work together on improvements to the system. Northern Telecom is responsible for marketing it. So far, the technology has been licensed to Telecom Finland and Scottish Telecom.

ATML, another Cambridge-based company, hopes to exploit the present trend in telecommunications to asynchronous transfer mode (ATM), a technology standard basic to the "information superhighway".

Mr Hermann Hauser, ATML chairman, notes: "All the fundamental ideas that this standard is built on are ideas that we are familiar with and expert at. ATM was a niche five years ago – the nice thing is that for once, the mainstream has come to us."

Virtual reality, or advanced computer simulation techniques, is a further UK strength. The UK has three world class contenders – Division, Virtuality and Superscape. Division and Superscape have aimed chiefly at the training and professional market while Virtuality has a substantial share of the world market for arcade and other games systems.

■ THE PEOPLE TO WATCH – By Paul Taylor and Daniel Green

Leading innovators meet both triumph and disaster

Hermann Hauser

The 47-year-old Austrian-born physicist and high technology entrepreneur worked for Mr Clive Sinclair before becoming joint founder of Acorn Computer in 1979.

Acorn, like other high-tech start-ups spawned by the 1970s "Cambridge phenomenon", flourished for a while, helped by the success of the BBC Micro which it designed and manufactured and which is widely credited with bringing computing in Britain "to the little guy".

However, in the face of fierce competition the company nearly failed in the mid 1980s and had to be bailed out by Italy's Olivetti. That collapse cost Mr Hauser about £100m.

Overall he has started 20 companies and although he is no longer listed as the 12th richest person in the country, as he was in 1984, many of his investments have paid off. Advanced Risc Machines, Acorn's sister company which designed advanced microprocessors, looks set to supply the "brains" inside a new generation of low cost network computers which industry advocates believe will challenge the dominance of the personal computer.

David Potter

The 52-year-old founder, chairman and chief executive of Psion, a 16-year-old company, which manufactures the world's best selling handheld computer, the Psion 3a.

He started his career as a mathematician and physicist but dislikes being referred to as a "boffin". The success of his company, which was floated for just £3m in 1988 and is now valued on the stock market at about £235m, has been based on the clever electronic engineering and smart marketing of the group's products.

But like other entrepreneurs Mr Potter has also lived through bad times. In the early 1990s the recession and the costs of new product development plunged the company £2m into the red and sent the share price tumbling. Many in the City were ready to write off Psion as another British high-tech failure but Psion confounded the pessimists by exploiting a niche in the market for comparatively low priced and easy to use hand-held personal computers.

He has been critical of the City, saying that it has failed to support British technological innovation.

Robert Madge

Aside from being one of Britain's richest men – he is estimated to be worth nearly £500m – Mr Madge, 43, also has one of the most unlikely backgrounds for a technology entrepreneur.

Ten years ago Mr Madge, once an architectural journalist, mortgaged his 200-year-old Buckinghamshire farmhouse to found Madge networks in 1986 after spotting a niche applying IBM's proprietary "Token Ring" networking technology.

Today Madge, which was floated on the Nasdaq market in the US in 1993, is ranked as the world's fourth-biggest maker of switches and other equipment for computer networks and is worth about £1.5bn.

The group is continuing to grow both through acquisitions and geographic expansion.

In spite of his undoubted success, Mr Madge, who now lives in Paris, remains a quiet and unassuming man, but also determined.

Chris Evans

A 38-year old Welsh rugby enthusiast. He has three quoted companies already – Chiroscience and Celsis, based on biotechnology, and Toad, which invents and sells anti-theft devices for cars. They are worth a total of £440m, of which his share is worth more than £60m.

Mr Evans now takes a back seat in the running of these companies and has moved on to start three more businesses: Cerebrus, Enviros and Kindertec in biotech, environmental services and gadgets for parents of toddlers respectively.

Nowell Stebbing

Mr Stebbing, 55, a veteran of Genentech and Amgen, the two biggest US biotechnology companies, is best known in the UK for having been chief executive of Chiroscience.

In the past year he launched himself into several new projects including being chairman of Axis Genetics, which is trying to derive vaccines from plants, chairman of Cambrio, a new biotechnology company that is already looking for a quotation, and a non-executive director of Therexys, a gene therapy company.

Brian Richards

A co-founder in 1985 of British Biotech, Mr Richards, 63, has since steered Cambridge's Peptide Therapeutics to flotation and intends to do the same with London-based Alizyme. "Brian will never stop", says a former colleague. "He's got too much energy and would be bored if he didn't do this."

TECHNOLOGY

Bacterial clue to heart toll

A tiny bacterial interloper may be the culprit in one of the most common diseases in the industrialised world, according to a new study by Utah researchers.

The bacterium, called chlamydia, has only recently been identified as a cause of pneumonia but a closely related subtype is the well-known source of urinary tract infections. Now the bug may be implicated in atherosclerosis – narrowing of arteries – which is the underlying cause of more than 500,000 deaths a year in the US.

Although the evidence is still sketchy, the Utah researchers believe the bug may latch on to the walls of coronary arteries, leading to plaque formation.

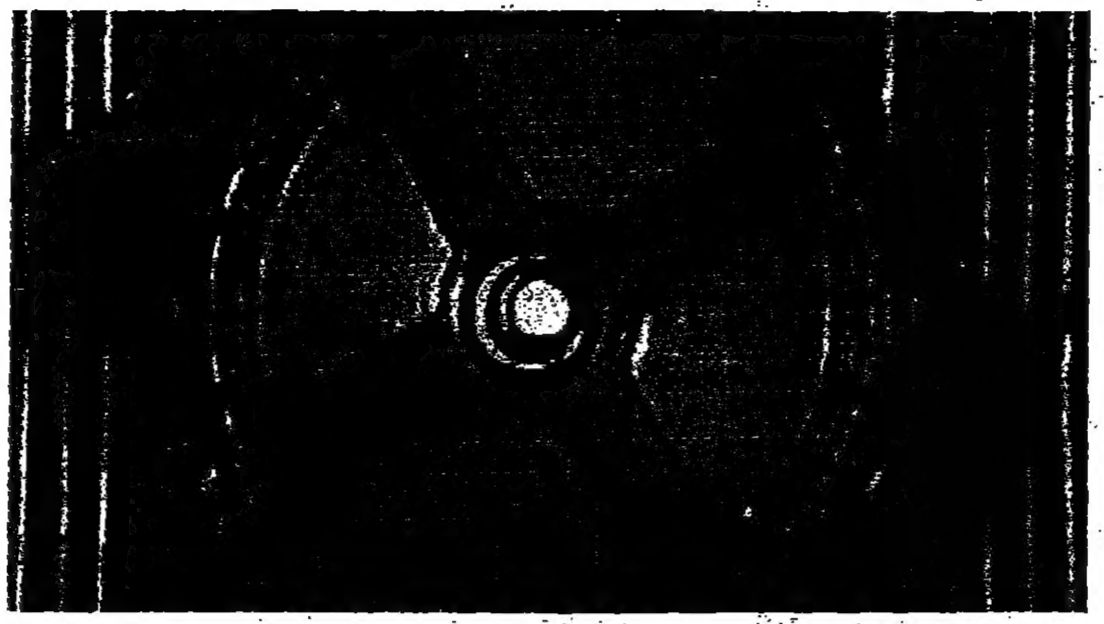
If research confirms that an infectious agent causes atherosclerosis, it could transform the way the disease is treated, says Joseph Muhlestein, assistant professor of medicine at LDS Hospital in Salt Lake City, Utah. "If we found that chlamydia actually caused the disease, it could be treated with antibiotics," he says.

A similar model exists in medicine. Physicians long resisted the idea that bacteria cause stomach ulcers but now it is established that they are the result of infection. Muhlestein says: "We don't know yet whether chlamydia causes heart disease but the ulcer story makes me think we should pursue our research."

The Utah researchers found the bacteria in a substantial number of fatty plaques extracted from the coronary arteries of 90 patients undergoing atherectomy, a procedure in which plaque is carved out of the walls of arteries.

The next step is to find if the bug can infect the coronary arteries of laboratory animals. However, Daniel Steinberg, professor of medicine at the University of California, San Diego, says: "The bacteria may be there simply because an atherosclerotic lesion has lots of delicious stuff for them to eat. The principal common cause of this disease is high cholesterol levels."

Marjorie Shaffer



Peter Menzel/Science Photo Library

Step in the nano direction: a 24-step micromechanic stepping motor made by depositing successive layers of silicon on the base

The molecular factory

Victoria Griffith on the wonders of nanotechnology

For two decades, scientist Eric Drexler has been promulgating a peculiar vision of the future. By 2025, Drexler says, factories far smaller than the head of a pin will manufacture everything from microwave ovens to ballgowns. The new micro-plants will destroy the economic class system because everyone will have easy access to a wealth of material goods. Since all things can be reduced to basic chemical components, Drexler reasons, even computers may be made from raw materials like sand and air.

The Californian's futurist notions are based on the science of molecular design called nanotechnology. While not all nanoists support Drexler's most extreme predictions, they do agree on one thing: some day it will be possible to create miniature factories at the molecular level.

For years, nanoists have operated at the fringes of mainstream science. Yet recent developments in atom manipulation, biotechnology and microtechnology have begun to lend credence to some of the discipline's ideas. "Nanotechnology as a science is gaining respect," says Richard Smalley, a professor at Rice University in Texas.

One sign of nanotechnology's new standing is Rice's nanotechnology centre, which will provide a forum for discussion and experimentation in the field. Nanotechnology is also attracting the attention of the corporate world. Drexler has given lectures at companies such as 3M. Apple Computer has helped sponsor conferences by the Foresight Institute, Drexler's research organisation. And John Walker, founder of the California software company Autodesk, donated $175,000 (£115,000) to help start the Institute for Molecular Manufacturing, which in turn funds the Foresight Institute's work.

Drexler believes the mainstream scientific community is too short-sighted and narrow-minded to place sufficient faith in his research. Most people have a hard time imagining invisible factories churning out desired goods, but Drexler insists his ideas are not off-base. "People can't see what goes on inside a computer chip, but they still believe in what it can do for them," he says.

Advances in biotechnology may show that the idea of a molecular factory is far from absurd. Biotechnology uses large molecules like proteins to produce substances in the body in a factory-like manner. In the industry's early days, biotech researchers depended on naturally occurring proteins to work their magic.

Today, though, advances in the understanding of molecular structure enable scientists to design their own bio-molecules. And these man-made molecules are being used not in the human body, but in the production of plastic-like polymers for use in manufacturing. "Biotechnology is nanotechnology," says David Braunstein, a bioapplications scientist with Park Scientific Instruments, which makes microscopes for atomic manipulation.

Many in the medical field would disagree. In fact, scientists are fighting over the definition of nanotechnology. "I don't think people in the biotechnology or chemistry disciplines are keen on having their fields renamed," says Donald Eigler, a researcher at IBM.

Although biotechnology may lend credence to nanotechnology concepts, to most scientists nanotechnology refers more specifically to the idea of manipulating individual atoms to create certain structures. In Drexler's vision, atoms could be put together to form microscopic pistons and gears in a shrunken version of a manufacturing plant. While that particular view seems outlandish to many mainstream researchers, recent breakthroughs make it easier to imagine constructing structures atom by atom.

Small advances in building atomic structures are big news for nanoists. In 1986, AT&T succeeded in placing germanium atoms on a germanium surface. In 1990, IBM spelt out the company name with individual xenon atoms on a nickel surface, while in 1994 its researchers dug trenches on a silicon atom.

The trend toward miniaturisation is also fuelling faith in a nanoist future. The computer industry is at the forefront of miniaturisation, which helps explain the sector's keen interest in nanotechnology. Every few years, scientists in the industry slim down computer parts dramatically. Twenty years ago, most computer circuits measured five microns in width. Today, some circuits are just one quarter of a micron – 250 nanometres – across. Within the next decade, observers say, circuits could shrink in size to just 100 nanometres.

That thickness would place the computer industry within the realm of nanotechnology. "One hundred nanometres will be like hitting the sound barrier," says Smalley. "At that point, everything starts to change."

While many scientists are convinced that nanotechnology will soon become industrially relevant, mainstream science remains sceptical of Drexler's vision of microscopic manufacturing. "It is a big leap of faith to go from moving some atoms around to creating molecular robots," says Julius Rebek, a chemistry professor at the Massachusetts Institute of Technology. "It is just not convincing."

Even Eigler of IBM, who spends his days shifting atoms around, is critical of the idea of creating elaborate molecular structures. "The oxygen molecule, for example, binds hard to a metal surface. That molecule is tougher than I am and there is no way I could get it to budge."

Although there is sharp disagreement about how far the burgeoning field of nanotechnology can be taken, a growing number of scientists feel the science is gaining relevance. Drexler and his critics in the nanotechnology field may be aiming for the same thing: to understand and imitate the workings of nature.

Nanoist engineers seek to make complex structures from atoms in the same way nature builds trees, mountains and human beings out of molecular raw material. "Nature is the ultimate nanotechnologist," says Braunstein. "What nanotechnologists are after is nothing more and nothing less than to understand and extend what nature already does."

Help from Deutsche Bank

Germany's biggest bank is focusing on start-ups, says Andrew Fisher

Germany's biggest bank has started to worry about where its future customers will come from and has decided to offer a helping hand to struggling young technology companies.

Carl Ludwig von Boehm-Bezing, a director of Deutsche Bank, explains: "When banks look at what they are financing, it is mostly the manufacturing industries of the last century with some innovations from this century." The German venture-capital sector is only a tenth the size of that in the US and the bank wants to help fill the gap. "We need to catch up in new technologies like biotechnology and microelectronics," he says.

Deutsche Bank has gone into partnership with Fraunhofer, the applied research body, to help small technology companies bring products to market and avoid wasting research money. "We want to prevent things being invented twice," Boehm-Bezing says, noting that some DM24bn (£10.4bn) in development costs is wasted annually through such duplication.

With Fraunhofer's help, the bank is producing a technology atlas on CD-Rom. This will carry details of research and technology institutes and companies, technology trends and financing programmes, with a regional breakdown. It has also published a handbook to help technology companies manage innovation, product development and marketing.

Why does such a large bank want to engage in small-scale financing which consumes so much time and effort, however promising the returns? Boehm-Bezing says venture capital is so underdeveloped in Germany that big banks must become involved. At a time of high unemployment and weak economic growth, the job-creating possibilities of small companies and the need for risk capital are receiving greater attention.

Specialised venture-capital companies – of which there are few in Germany – are rigorous in choosing investment targets. Deutsche Bank, with Fraunhofer in a consultancy role, has also spent much effort on finding its first technology stakes. Since mid-1995, the bank and two new affiliated investment units – DGIB (specialising in stakes in innovative companies) and DMBG (investing in Mittelstand, or medium-sized, companies) – have been in contact with 480 firms.

These contacts have so far resulted in four minority shareholdings totalling DM7m and negotiations are under way with 11 others across the technology spectrum. The first stake was in Nupron, a biotechnology company producing proteins; Nupron is investing DM45m and creating 50 jobs. Deutsche Bank has also put technology-financing experts in its main branches to advise on loans to innovative businesses.

Such companies often find the going tough in Germany. Finding start-up and development funds can be difficult in a country so wary of risk. For investors, there is a lack of stock market exit possibilities to enable them to take profits on shareholdings in small companies.

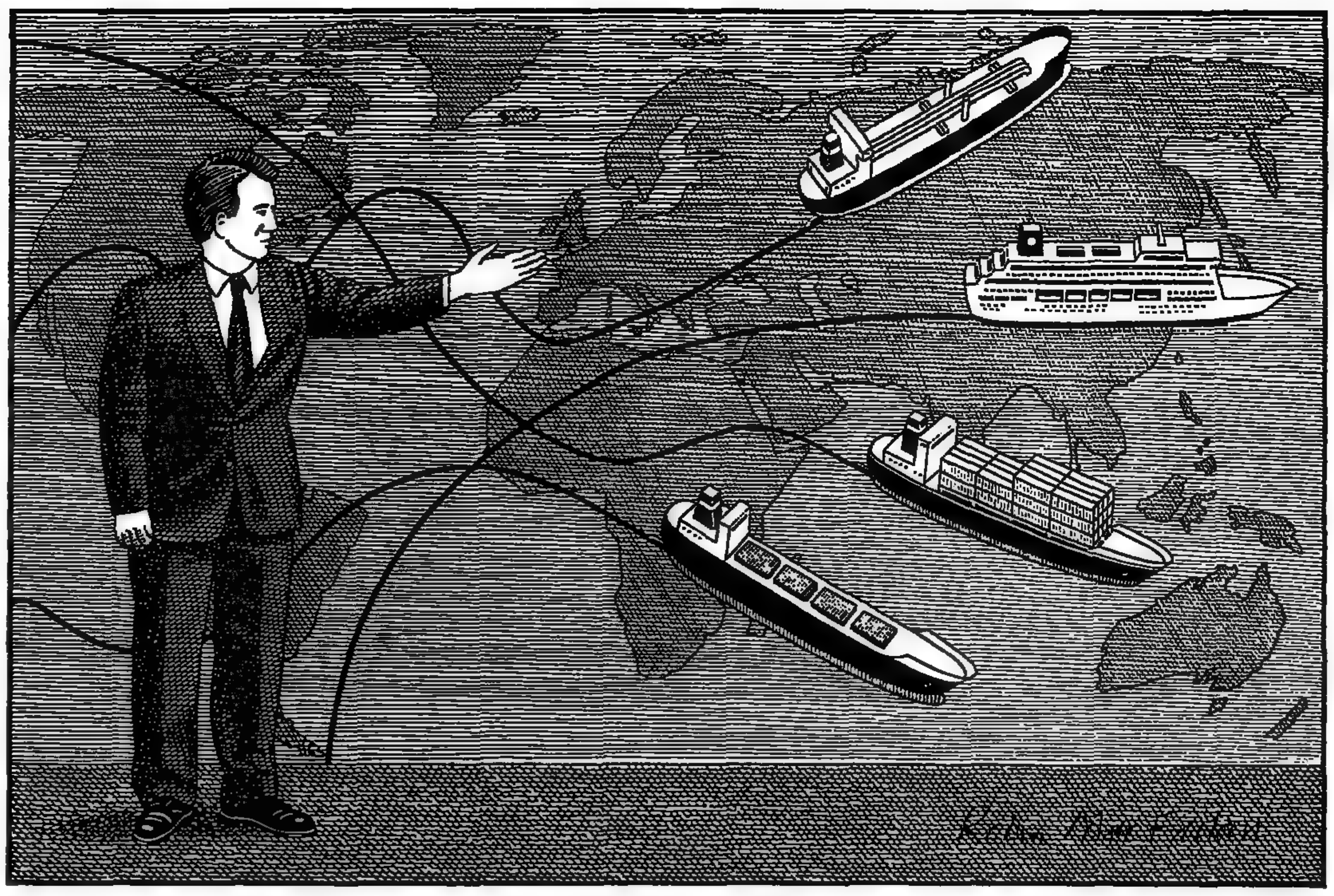
"In a society that is bureaucratic, over-regulated and risk-averse – and our society is like that – it is very hard to make the mental breakthrough," says Boehm-Bezing. But he sees hopeful signs, both in the government's willingness to study the matter and the Frankfurt stock exchange's efforts to stimulate a market in small technology-related issues. He laments that the tax regime does not encourage wealthy investors or institutions to take stakes in young or start-up companies. "There are some business angels [entrepreneurs who provide venture capital] but we need many more."

Germany also lacks pension funds putting part of their investments into venture capital to enhance long-term returns. In the US, 61 per cent of venture-capital finance goes into new technologies such as biotechnology, medicine, software and communications, says Boehm-Bezing. In Germany, the figure is a mere 7 per cent.

THE WORLD SHIPPING INDUSTRY

Bright at first, but changeable later

Seaborne trade is booming, but strong cross currents will be felt at this week's world shipping conference in Athens, writes Charles Batchelor



Prospects for the world shipping industry should be bright. Seaborne trade is forecast to double over the next 15 years in response to growing consumer affluence and increasingly international patterns of manufacture.

Yet as the world shipping community meets in Athens this week for the biennial Posidonia exhibition, which brings together shipowners, brokers, equipment suppliers and financiers, it will have a host of problems on which to brood.

A complaint in the UK and some other developed countries is that although shipping is a £100bn industry worldwide, with a crucial economic and defence role, it is frequently taken for granted by governments and the general public. Much shipping activity, by its very nature, takes place far removed from public gaze and a shift to third world crews has meant that even when things go wrong and lives are lost little attention is paid in the western media.

It takes a tanker grounding on a sensitive shoreline or the sinking of a passenger ferry in European waters to focus attention on the shipping industry and then the interest is generally critical.

At the commercial level the industry is having to cope with over-capacity in several important sectors which is putting downward pressure on returns. At the same time, increased awareness of environmental and safety issues is pushing up costs. The traditional method used to restrain unbridled competition – through "conference" agreements – is under attack by regulators. Yet attempts to liberalise shipping markets at negotiations under the aegis of the World Trade Organisation have been blocked by the US.

Coping with change has become a way of life for the shipping industry. Containers have revolutionised the general cargo trade while the mechanisation of port activities has cut turn-round times and improved profitability.

At the same time the large merchant fleets of the traditional sea-faring nations have declined to be replaced by much more diverse patterns of ownership. These include the fleets of the large, predominantly far eastern corporations and the single vessel companies owned by the Greek shipping community and others.

Making profits from shipping depends as much on currency movements and on timing expansion to catch growth in one of the industry's many subsectors and retrenchment to beat the downturns, as on the day to day business of running ships.

Buying and selling vessels at the right point in the cycle can often make the difference between a profit or a loss on overall operations. The large shipping companies frequently find it hard to justify their shipping activities using conventional yardsticks to their shareholders. Yet the private or family owner applies different financial ratios and can often do well in difficult markets.

Despite the low profitability of parts of the industry there is no shortage of capital to finance the acquisition of new or second-hand vessels. After a period of retrenchment banks have returned to the market for shipping finance in large numbers. Pressure on the margins on corporate lending generally means that relatively good returns are available from shipping loans.

One of the most buoyant sectors for many years has been container shipping with recent annual growth rates of 9-10 per cent. This has been fuelled by the expansion of trading activity in Japan and south east Asia and the application of containers to a wider range of products, including many low-cost commodities.

But this growth in business volumes has been outstripped by the ordering of new and larger container vessels. The new ships are capable of carrying up to 6,000 containers each but are unlikely to find full employment in the near future. Many of the larger container groups have formed alliances in order to plan their timetables more cost-effectively and share expensive terminal facilities. The alliances do not involve price-fixing arrangements and have thereby avoided the difficulties associated with the traditional conference arrangements.

The tanker market has been more subdued reflecting low levels of increase in oil consumption around the world and the growth in the role of North Sea production and other "short haul" areas. Growth rates are likely to remain low until demand for Middle East oil, which must be shipped long distances to consumers, picks up again. On the positive side for profits, the scrapping rate of elderly tankers has exceeded new deliveries for the past two years and a further contraction of the tanker fleet is expected, according to a recent review by NatWest Securities.

Demand for dry bulk carriers, which move cargoes such as coal and ore, has been strong but so has the rate of ordering new vessels and returns in this sector are likely to remain depressed.

In the passenger shipping sector, cruise ship owners have been ordering massive new cruise liners including P&O's flagship Oriana and Carnival Corporation's Carnival Destiny in anticipation of further expansion. Substantial growth will depend on making cruising more of a mass market holiday in Europe and in developing the markets of Japan and south-east Asia.

The north European ferry market, meanwhile, has been thrown into turmoil by the opening of the Channel tunnel. The initial response of the ferry companies has been to increase capacity in a struggle for market share but rapid retrenchment is expected as the costs of this strategy mount.

The ferries, and other shipping sectors, are also having to adjust to tougher safety regulation. The sinking of the Estonia in the Baltic in September 1994 with the loss of more than 900 lives has led to a tightening of ferry safety standards in north-west European waters and ferries will be required to fit partitions or bulkheads on the car decks or instal additional buoyancy aids. Cruise liners meanwhile have been required to meet far tougher fire-resistence standards while tankers have been made subject to tighter environmental laws following the grounding of the Exxon Valdez off the coast of Alaska in 1989.

For an industry as international as shipping, the best response to such disasters is to agree a set of standards which will apply around the world. The London-based International Maritime Organisation, a United Nations agency, has produced a raft of valuable regulations over the past three and a half decades. But it relies on reaching consensus and even when new rules are agreed it can take years for governments to enforce them.

The US government's response to the sinking of the Exxon Valdez by-passed international procedures and imposed a burden on the tanker industry which many operators felt was unduly harsh. The Oil Pollution Act of 1990 has undoubtedly kept some sub-standard vessels out of US waters but by requiring tanker owners effectively to insure against unlimited liabilities has put a heavy cost on the industry generally.

The counterpoint of tighter regulation of matters such as safety is a greater liberalisation of the markets in which shipowners operate. But it has proved remarkably difficult to put together an international agreement to open up the shipping sector. Negotiators have spent the past two years attempting to reach an agreement on liberalising world merchant shipping within the framework of the World Trade Organisation. Shipping had been dropped from the original Uruguay Round of trade talks which were concluded at the end of 1993 to avoid delaying a general trade agreement.

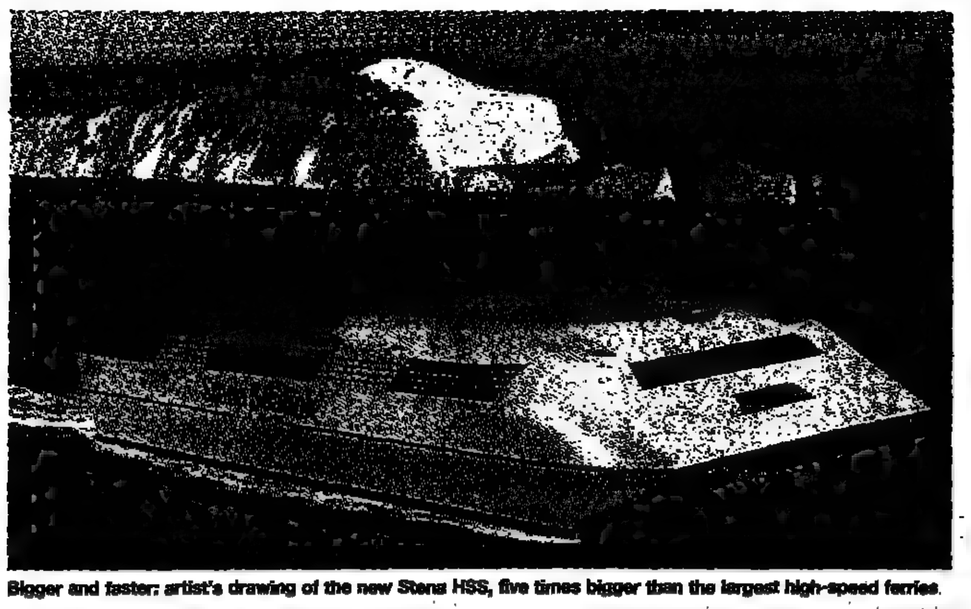
But it has proved just as difficult to do a deal within the WTO. The US has been widely blamed for failing to table new proposals following the withdrawal of the modest offer made during the Uruguay Round. In an election year and faced with pressure from its maritime unions the US appears reluctant to act.

Some observers say that commercial pressures have already opened up the shipping market and that a formal trade agreement would make little difference but others are keen for liberalisation to be given official backing. It would be ironic if an industry which depended on the free flows of world trade was unable to devise its own liberalised framework for doing business.

Ferries: by Geoff Dyer

Fast cats are on the prowl

While older vessels are being made safer, aluminium catamarans are all the rage



Bigger and faster: artist's drawing of the new Stena HSS, five times bigger than the largest high-speed ferries.

When Sea Containers, the property and transport group which owns Hoverspeed, introduced the first high-speed ferry on to the UK market in 1990, the reception was not overwhelming. Passengers complained that the new ships gave them terrible sea-sickness.

Six summers later and high-speed ferries are all the rage and are being introduced on a range of routes around the country. In April, Stena, the world's largest ferry operator, introduced the Explorer on to the Irish Sea. By the end of this year, nearly half of its UK fleet will be high-speed ferries.

This summer will be a crucial test for the new ferries to see if they have properly overcome those teething problems and to assess whether they will have the revolutionary impact on the industry that their supporters claim.

Powered by up to four gas turbine engines, and backed by 100,000 horse power, these new aluminium-hulled vessels travel twice as fast as conventional ferries. Yet they are much larger than hovercraft, some of them carrying up to 1,500 passengers and nearly 400 cars, the same as the largest conventional ferries.

"They have all the flexibility of a multi-purpose ferry, but go at double the speed," says Stena.

Not everyone in the industry, however, is gushing with enthusiasm about the new craft. P&O European Ferries, alongside Stena the largest operator in the country, has taken a much more relaxed attitude.

P&O has chartered its first fast craft for the Cairnryan - Larne route which will commence sailings in June. But Mr Graeme Dunlop, chairman of P&O European Ferries, says that he is waiting to see what response the new ferries get before chartering any more. "We would rather be second than be a pioneer," he says.

And unlike Stena, he says he does not believe that there is a place for the high speed ferries on the high-profile Dover-Calais route.

This difference in opinion strikes right at the heart of the future of the ferry industry. To Stena, the introduction of the faster ferries on the shorter Channel crossings is an essential component in its strategy to deal with competition from Eurotunnel, which carries cars and passengers across the Channel in a third of the time.

"Increasing the speed of our service is a key part of replacing the attraction of on-board duty-free sales when they expire in 1999," says Stena.

However, according to P&O, speed is not crucial on the Dover-Calais route. "There have been faster craft on the Channel for 20 years in the form of hovercraft, and 94 per cent of travellers have still preferred to go on conventional ferries," says Mr Dunlop.

Ferries are now "floating supermarkets", he says, selling clothes, compact discs and gifts, not just duty-free. The faster craft will not give passengers enough time to do some shopping on a Dover-Calais trip, he argues. There is no consensus on what is the best design either. Sea Containers pioneering vessels were catamarans built in Tasmania by Incat. Stena's high-speed crafts are also twin-hulled.

However, Sea Containers has recently put in a $200m order for six new ships, all of them monohull – the first two are now under construction at Fincantieri in Genoa. It says the monohull craft are slightly faster and are cheaper because they use less aluminium. P&O has followed suit, opting for a monohull ship. The high speed ferries do not come cheap – Stena is paying around £65m each for its new vessels. And they are being introduced at a time when operators also face the cost of complying with new safety criteria for roll-on, roll-off ferries, which were prompted by the 1994 sinking of the Estonia in the Baltic with the loss of 900 lives.

The ferry companies expect to hear shortly from the Department of Transport what the exact timetable will be for implementing the new standards, which could cost several million pounds for some ferries.

Despite the Estonia tragedy, an agreement on safety improvements was a long time in coming. Last November a conference of the International Maritime Organisation, a United Nations agency, failed to agree on more stringent rules after several southern European countries argued that the calmer Mediterranean waters did not require such strict safety standards.

As a result seven north European countries negotiated their own agreement – the so-called Stockholm rules, after the city where the talks were concluded. The agreement affects all ferries on international routes in north-western Europe.

The new rules require that ro-ro ferries should not capsize even if they have up to 50 centimetres of water on the car deck. As a result some ferry operators will be required to install new bulkheads, or partitions, on their ships.

The Estonia and the Herald of Free Enterprise, which sank off Zeebrugge in 1987 with the loss of 193 lives, both capsized rapidly after water poured on to their car decks.

The Stockholm rules do not have to be fully applied until 2002. However, implementation is to be staggered with the worst ships being required to abide by the new rules first. Ferry companies are currently tank-testing their fleets to see which ships will need modifications, and it is expected that the older vessels will be affected the most.

Until the tests have been completed and the timetable published, the ferry companies will not fully know the cost of applying the new rules.

The large UK ferry companies said throughout the negotiations that they would comply with whatever was agreed. They were suspicious that French ships would not be required to abide by the same rules, but a compromise was later agreed.

The November IMO conference was not totally fruitless, however. It was agreed that the so-called Solas '90 safety provisions, which relate to ship stability, should be applied throughout the world ferry industry, and not just the ships built after 1990, as had been previously decided.

Shipbuilding: by Stefan Wagstyl

Europe's yards put value before volume

Old European shipyards are beating an untidy retreat before tough Asian rivals

The bankruptcy this year of Bremer Vulkan, Germany's biggest shipyard, has shaken world shipbuilding.

The collapse of the 102 year-old company highlighted the severity of competition among shipbuilders, and the extent to which once pre-eminent European yards are losing ground to their rivals, principally in Japan and South Korea.

The South Korean yards are expanding capacity in the hope of winning market share and establishing themselves above Japanese shipbuilders as the world's top producers.

But their ambitious investments are helping to extend the chronic over-capacity which has dogged the industry since the 1970s. As a result, prices and profits for most shipbuilders remain under fierce pressure – with the exception of some specialised markets such as cruise liners. There is so much over-capacity that even the prospect that the world's ageing tanker fleet, much of it built before 1980, will soon need replacement has yet to have a significant impact on shipbuilders' prices.

Drewery Shipping Consultants of London forecasts that while annual world shipbuilding revenues are likely to rise by 35 per cent by the year 2000 the outlook for shipbuilding is "uncertain and in some cases bleak". It says in a report published last year on prospects for 1995-2000: "Large and potentially massive overcapacity combined with persistent interference in the market in the form of government assistance means that revenue will be spread thinly, presenting huge problems to the viability of many yards."

Analysts estimate that the world's shipyards can produce about 30m gross tons a year but are building only about 25m gt. Moreover, the Korean yards' expansion plan envisages increasing their capacity by more than 3.5m gt to over 7m gt. Even the fact that a previous surge in investment in the 1980s brought the South Korean industry into serious financial trouble and the need for a government rescue does not seem to have robbed the country's yards of their aggressive pursuit of business.

Japanese companies are responding to the pressure by trying to retain market share, despite the ferocious squeeze on margins. In the year to March, Japanese yards received orders for 10.2m gt, the second successive year when the total exceeded 10m gt. Even though the yen's recent fall from about Y80 to the US dollar to above Y100 has made life slightly easier, yards are still having to cut costs to win orders. Ishikawajima Harima Heavy Industries this year announced plans to reduce its shipbuilding workforce by 500 to 1,900.

Meanwhile, Sasebo broke an agreement dating back to the Second World War under which it serviced US navy vessels for nothing. The company said it could no longer afford this diplomatic luxury.

To try to secure their long-term future, yards are buying increasing amounts of components from overseas and signing work-sharing partnerships with yards in low-cost countries, notably China. Japanese companies are also refining their legendary skills in man-management, recruiting more qualified young graduate engineers to counter the fact that the bulk of the industry's experienced workers is edging closer to retirement.

European yards have found it more difficult than the Japanese to compete with South Korea. Bremer is not the only European yard under pressure.

Last year, Denmark's oldest yard, Burmeister Wain, went into receivership after 152 years. Greece is struggling to find a buyer for the state-owned lossmaking Hellenic Shipyards, the largest in the eastern Mediterranean. Madrid is facing difficulties restructuring Astilleros Españoles, the state-owned yards which have run up accumulated losses of about $3bn (£1.94bn).

Despite the taxpayers' money poured into the industry, western Europe's share of the world's capacity has fallen from nearly 40 per cent to under 20 per cent in the past two decades. Job cuts have been harsh: employment in European shipbuilding has fallen since 1975 from 460,000 to under 120,000.

European yards have countered the east Asian challenge by pulling back from making the large tankers and dry-goods carriers at which the Japanese and Koreans excel. They have focused instead on high added-value vessels such as gas and chemicals carriers, ferries, and, above all, cruise ships. These account for only about 10 per cent of the market by weight, but they make up about a third by value.

But the attachment of governments to national shipyards has prevented Europe's shrinking share of the market from being properly distributed among the most efficient producers. Despite efforts by the European Commission over 10 years to reduce subsidies, governments have successfully secured exemptions from subsidy limits, notably in Spain and Portugal and most recently in eastern Germany.

The proliferation of subsidies has kept yards in business and workers employed, but it has created a fragmented and uncompetitive industry. While South Korea has five big producers and Japan eight, Europe has a score of national operations. Size matters because a big yard is better-placed to secure a flow of orders for similar vessels, so cutting design and engineering costs and allowing for efficient yard management.

Commission officials argue that as long as other countries – including South Korea – subsidise yards through cheap loans and other techniques, the temptation will persist in Europe. They say that Europe will abide by a planned international agreement outlawing subsidies which has been negotiated under the auspices of the OECD. This is due to be implemented this summer but at the time of writing was being held up by delays over its ratification in the US.

Completions by principal shipbuilding countries ('000 gross tons)

Country	1990	1995
Brazil	255	172
China	404	784
Taiwan	685	488
Denmark	408	1,003
Finland	256	317
Germany	874	1,121
Italy	392	385
Japan	6,663	9,263
S. Korea	3,440	6,264
Netherlands	190	205
Poland	141	524
Romania	175	229
Spain	367	251
UK	127	128

Source: Lloyds Register of Shipping

Ferries rule the waves where the British sun never set

You don't have to be British to fly the flag. The Union Jack is boldly emblazoned on the hulls of a fleet of US-owned catamarans which dash between Seattle and Victoria, capital of British Columbia.

They are run by Seattle-based Clipper Navigation company founded 10 years ago to provide rapid round-the-year service between the two north-west Pacific coast cities.

Paradoxically, though, one of the company's recent anxieties has been that the squeeze on European ferry companies following the opening of the Anglo-French Channel Tunnel could cut the price of ferries, and tempt newcomers into the busy sea lanes of the north-west Pacific.

Clipper Navigation is one of seven ferry companies which operate in and out of Vancouver Island, including Victoria, the island's biggest city. They compete not only with each other but increasingly with operators of fixed-wing aircraft and helicopters, mainly to Vancouver, BC's biggest mainland city.

In the second quarter of last year, ferry traffic in BC rose 5 per cent, including 3m passengers on the main Vancouver Island routes. It has continued to rise as Americans take advantage of the cheap Canadian dollar.

BC Ferries, the government operator of big car ferries between the Canadian mainland and Vancouver Island, has recently ordered three fast catamarans at a total cost of C$210m. The 1,000-passenger, 250-car vessels, the first of which is due to enter service next year, will cross the the 32 nautical miles of the Georgia Strait between Vancouver's Horseshoe Bay and the island in just over 60 minutes instead of 90.

Clipper Navigation, which operates smaller, passengers-only catamarans from Seattle to Victoria and the San Juan Islands, is also expanding. It has added a fifth vessel and doubled the power of another by changing from diesel to gas turbine engines. This, claims Clipper, makes it the fastest passenger ship in the western hemisphere with a top speed of 45 knots (53 mph), reducing the Seattle-Victoria run from 2¼ to 1¾ hours.

BC Ferries' new vessels, which will have aluminium hulls, are to be built by a consortium of Vancouver shipyards with assistance from Finyards of Finland, which recently built an even bigger high-speed aluminium catamaran for Stena of Sweden.

Clipper's prominent use of the UK flag is motived as much by self-interest as sentiment. Since it is also incorporated in the flag of British Columbia, US visitors to Victoria, that quintessentially British city, could be mistaken for thinking they are visiting the real thing.

At Victoria's city-centre harbour they disembark under the shadow of the province's imposing Edwardian parliament building and the vast Empress Hotel whose afternoon and high tea ceremonies would be more appropriate in Bournemouth or Tunbridge Wells – before the sun set on the British Empire.

Maurice Samuelson

The role of London: by Charles Batchelor

Under siege on the River Thames

London must do more to retain its international preeminence as the industry's focal city

The decline of the British merchant fleet has prompted fears that London's pre-eminence as a shipping centre could be endangered. Two recent reports have highlighted this issue, one identifying a drop, in real terms, in London's shipping earnings and the other pointing to potential threats to its position.

Many of those involved in shipping fear that if the supply of experienced British ships' captains dries up then specialist sectors such as the classification societies, which carry out technical inspections, would have difficulties recruiting people with the right skills. Training colleges, meanwhile, report a shortage of suitably qualified trainers.

Efforts by the shipping industry to win concessions from the government in its treatment of the British fleet have had little effect despite the relatively small sums involved. While the government looks the other way, shipowners continue to move registration of their vessels and their crews offshore.

In 1926 the UK merchant fleet comprised more than 19m gross tons or nearly 31 per cent of world fleet. In absolute terms the tonnage figure held steady until the late 1960s when it increased to peak in the mid-1970s and then fell back. By 1993 the UK registered merchant fleet was just 6m deadweight tons. The UK-owned fleet fell to just over 13m dwt in 1993 or 1.9 per cent of the world fleet.

The city's earnings from maritime related activities, such a ship-broking, legal services and banking, fell sharply in the decade to 1994, according to a study published in March by the Chamber of Shipping. Total maritime service earnings, including those from the troubled Lloyd's insurance market, fell by £300m from £1.28bn to £980m over the 10-year period. This was a decline of £600m or 53 per cent after excluding the impact of inflation.

Even assuming that Lloyd's earnings had recovered to their 1984 level, this would still only produce a 1994 earnings figure of about £1.3bn, a decline of 37 per cent in real terms.

The chamber, which represents shipowners and managers, was unable to establish a direct link between the contraction of the UK merchant fleet and the decline in maritime services. But Mr Mark Brownrigg, policy director, points out that other centres where shipping activities have declined, such as New York, have seen a parallel decline in services. Others, such as Singapore and Cyprus, where physical activity has increased, have seen a growth in services.

The chamber's survey showed that the financial services sector, including banks, finance companies and equity providers, had suffered the most marked decline, from £387m in 1984 to £156m 10 years later.

In contrast, legal services, up from £68m to £126m, had experienced the strongest growth. The decline in the banking sector was due in part to both UK and foreign banks carrying out more shipping business outside London.

An earlier study, carried out by London Business School for the Corporation of London, provided less financial detail but was more thorough in its analysis of the problem. This report, published in October 1994, found that London's shipping markets – for marine insurance, ship broking and ship finance – had maintained their position because of their liquidity and expertise. The combination of shipping services meant deals could be concluded in one centre.

Established markets can sustain their position against newcomers because the breadth of services available is difficult to replicate, the study found. London's established reputation also played an important role in attracting business.

The size of the marine insurance market meant risks could be priced competitively and a good service offered in terms of claims handling and the diversity of risks accepted. However, the poor financial performance of the sector in recent years and strong competition from continental European re-insurers could threaten London's position, the report concluded.

Tower Bridge salute: Hoverspeed Great Britain visits London after crossing the Atlantic in record speed

The shipbroking sector, meanwhile, depends on the efficient distribution of information. Brokers traded information about recent transactions which allowed them to establish trends in market prices. Despite the decline of traditional meeting places such as the Baltic Exchange and the growth of electronic methods of distributing data, personal contact remained important. In a market where prices are often far from transparent shipowners and charterers must have confidence in the brokers' ability to determine prices accurately.

But London's advantage in shipbroking also depends in part on the presence of a large number of foreign owners, principally the Greeks, who are sensitive to changes in the tax regime. There is a large community of international banks in London providing loan finance but a shift to bond offerings could make the US relatively more attractive while the Oslo stockmarket had increased its share of equity listings.

The financial and other pressures on shipowners to move their fleets and crews away from relatively high-cost centres such as London are very strong. P&O Containers decided last December to move five of its 27-strong fleet from the British to the Bermudan flag and to replace 90 British ratings with Filipino crew.

This decision was followed quickly by an announcement that Royal Dutch Shell, the Anglo-Dutch oil group, was to transfer the employment contracts of 1,000 British, Dutch, French and German officers on its 54-strong tanker fleet to Singapore as part of a programme to reduce operating costs by 40 per cent.

The Chamber of Shipping and Numast, the union representing ships' officers, have called for British shipowners to be given the same treatment as many foreign rivals in areas such as training support, taxation and insurance premiums.

The chamber lobbied unsuccessfully in advance of the November 1995 budget for the government to waive National Insurance contributions for British seafarers, a step which would save the industry £17m a year. "If shipowners move ships or crew contracts abroad then the government loses the insurance contributions anyway," says Mr Andrew Linington, Numast spokesman.

The shipping industry argues that it deserves a break, both to bring it in line with foreign competitors and because of the uniquely mobile nature of its business and its assets. Ships can be operated from ports and offices anywhere in the world and will move if conditions are more attractive elsewhere.

The government has made concessions, in the shape of roll-over relief on ship sales and purchases and an easing of the need for registry with the British flag. But the industry remains fearful that London's financial position will be further eroded unless more effective action is taken.

■ **Safety and environment:** by Charles Batchelor

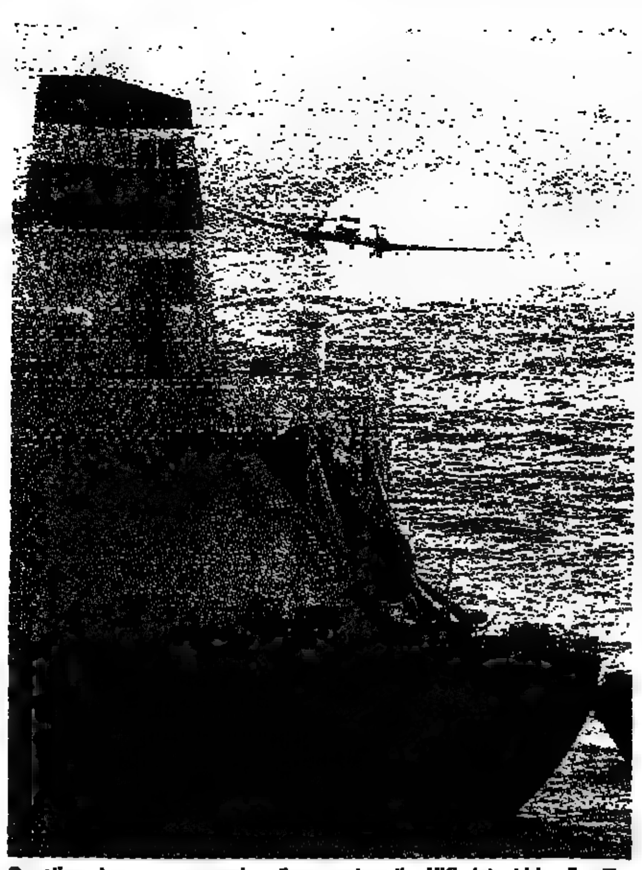
Danger in numbers

Safety at sea is not helped by the sheer profusion of official agencies and national registers

Governments and the world shipping community have given a high priority to preserving life and protecting the environment in recent years. Bookshelves of international and national regulations have been written but the roll call of groundings and sinkings continues to lengthen.

The Estonia, the Sea Empress, the Exxon Valdez and the Derbyshire. Each loss has prompted a frenzy of activity among governments and the organisations responsible for maritime safety. But the diversity of the world's shipping fleet and the financial pressures on ship owners mean that watertight regulation is difficult to achieve.

The International Maritime Organisation, the London-based United Nations agency responsible for co-ordinating global efforts to raise safety standards and prevent pollution, has committees in almost constant session. But its efforts are hampered by the need to achieve consensus and the conflicting priorities of its 153 members.



Questions to answer: spraying dispersant on the UK's latest big oil spill

"Although a great deal has been achieved during the last 36 years [the IMO was established in 1959] shipping safety is still a major concern and the *oceans are far from clean,*" Mr William O'Neil, IMO secretary general, wrote in the International Chamber of Shipping's 75th Anniversary review published last month. Despite the fact that the IMO had adopted more than 40 different treaties covering 98 per cent of world, shipping accidents still occurred, he noted.

"There is no doubt that standards do vary and some owners care more about safety than others. I believe that we need to make safety and the protection of the environment part of the culture of shipping. They must be made priorities, not afterthoughts."

The main problem facing IMO *is persuading governments* speedily to implement new regulations once they are agreed. Even relatively simple improvements can take time to be adopted. A scheme to provide every ship with a unique identification number which was due to take effect last January has still not been acted upon by many governments and shipowners, Mr O'Neil warned in March.

This scheme, first introduced as an IMO recommendation nine years ago, would allow a ship to be identified no matter how many times it changed owner, flag or name. "The scheme is extremely simple, involves no cost for the industry and yet promises to be extremely effective in improving safety and combatting crime at sea," Mr O'Neil said.

Despite proposals from some governments, including Britain, for a more considered approach to assessing risk, the shipping industry, like many others, is normally prompted into making safety improvements only in response to specific disasters. Recent incidents have led to a review of safety in three main areas of shipping: ferries, oil tankers and *dry bulk carriers.*

The sinking of the Estonia in the Baltic in September 1994 with the loss of more than 900 lives has led to a far-reaching review of safety procedures on roll-on roll-off ferries. Some observers remain dissatisfied with the progress that has bean made but it is now widely agreed that the large open car decks of these vessels represent a serious hazard.

The IMO ordered a rapid review of ferry safety following the loss of the Estonia, by-passing its normally time-consuming procedures. But despite the shock at the size of the death toll and strong pleas for action by many members the IMO was unable to reach an international agreement. The IMO approved a set of safety standards, including a requirement that ro-ro ferries remain afloat even when they have taken 50 cm of water on their car decks, but left it up to member states to reach bilateral agreements on applying the higher standards.

> The list of tanker *groundings* grows longer

While north European countries were strongly in favour of tougher standards, those bordering the Mediterranean, where weather conditions are less fierce, were unwilling to incur the additional costs of partitioning their car decks or installing additional buoyancy features. But progress has been made on a regional basis and last February seven north European countries agreed to apply the tougher standards by 2002.

Tanker safety has been under almost constant discus*sion since the grounding of the* Exxon Valdez off the coast of Alaska in 1989. Two subsequent groundings in British waters – the Braer off Shetland in January 1993 and the Sea Empress in the entrance to Milford Haven harbour last February – reinforced the urgency of improvements.

The Exxon Valdez prompted a radical tightening of US regulations covering tanker shipments under the Oil Pollution Act of 1990. This laid down requirements for the phased introduction of double-hulled tankers and imposed stringent liability standards, and hence extra costs, on shipowners serving US ports.

The Braer sinking led to the commissioning of the Donaldson report by the British government. Lord Donaldson made more than 100 recommendations including a more rigorous system for inspecting ships on arrival in port, improved exchange of information between charterers, insurers and the regulators to identify substandard ships, and the positioning of powerful tugs around the coast to help ships in trouble.

It was the government's failure to agree to the positioning of a tug in the western approaches to the English Channel which led, in the view of some observers, to the loss of a large part of the Sea Empress's cargo of oil. Others blame the fact that the vessel had one and not two hulls though an official investigation is continuing.

Intertanko, the organisation of independent tanker owners, says it is not just the shipowners who are at fault when pollution occurs. It criticised governments for failing to introduce traffic separation systems near busy ports and for failing to install shore-based beacons which could locate vessels.

The safety of bulk carriers has been the subject of controversy following the loss of the Derbyshire in a typhoon in 1980 with the loss of its entire 44-strong crew. The discovery of the vessel, under nearly three miles of water off Japan in 1994, raised the prospect that more would be learnt about its fate. But the view has strengthened in recent years that the design of large bulk carriers failed to keep pace with the increase in size of these vessels. The IMO last month began consideration of placing limits on the use of older bulkers for the carriage of very heavy cargoes.

A problem which has bedevilled improvements in shipping safety has been the large number of organisations involved. A ship may be owned, chartered, crewed, registered and surveyed in five different countries, blurring the lines of responsibility. The large fleets once owned by the traditional maritime nations have given way to single vessel companies registered with a flag of convenience and sometimes manned by a polyglot crew with no common language between them.

The growth of the flags of convenience has raised ques*tions about the ability of coun*tries such as Cyprus, Honduras, Malta and Panama effectively to regulate the ships nominally under their control. These four countries, with St Vincent, all had losses at or above the international average in 1995, according to the Institute of London Underwriters.

Competition between the different registries is forcing the laggards to raise their standards but there is still a long way to go. Dissatisfaction with the supervision exercised by the flag states has led to a growth of port state control treaties. Vessels are now subject to controls in many ports and run the risk of being held if their equipment or crew do not meet the required standards.

Increasing pressure is also being brought to bear on the classification societies which carry out technical inspections of ships when they are being built and once they are in operation. The societies have been criticised for failing to impose strict enough standards for fear of losing business to less demanding competitors.

The 11 societies grouped in the International Association of Classification Societies, responsible for more than half the world's fleet and 90 per cent of its cargo-carrying tonnage, responded last July with a seven-point plan to tighten their rules. These included the automatic suspension of a vessel's classification certificate if the owner failed to carry out the regular five-year survey and a bar on a vessel switching societies until all overdue repairs had been carried out.

■ **Financing options:** by Charles Batchelor

Steering a new course

Owners find that the banks are not the only source of ready finance for shipping

Bank lending has dominated the market for shipping finance over the past two years but bankers detect signs that some of the large shipping groups are extending their financing options.

Shipowners are starting to tap the corporate bond market in the US in what some bankers see as the first step towards using the equity markets. Meanwhile leasing, widely used in the airline and railroad wagon sectors, is starting to make inroads into shipping.

"The industrialised sectors of shipping – chemical and car carriers and oil tankers, which offer the promise of more stable earnings – are starting to use the US capital markets," says Mr Michael Parker, vice president at Citibank Shipping. "The shipping companies are starting to think ahead and they can see the value of 10-20 year money."

An increasing willingness to plan for the longer term lies behind a growing use of lease finance.

Citibank expects leasing to account for as much as 5 per cent of total shipping finance this year, up from 1-2 per cent in recent years. Traditionally shipowners have not wanted to *commit themselves to* long-term leasing arrangements because this would restrict their freedom to participate in the active second-hand shipping market.

Non-US shipping companies *which attempt to tap the US* bond market face an uphill struggle because they will be unfamiliar to local investors while shipping has a reputation for volatile earnings. But the number of high yield shipping issues has doubled over the past three years, says Mr Parker.

The larger shipowners are making efforts to acquaint the US credit rating agencies with their activities and some are preparing their accounts in a format acceptable to US investors. Once shipping has established a higher profile it may then be able to move to fully fledged equity issues.

"Very little money has been raised on the stock markets or by private placements," says Mr Rex Harrington, director of shipping finance at Royal Bank of Scotland. "Mortgage lending still accounts for 80 to 90 per cent of the total."

After a period during the 1980s when difficulties in the shipping market led to losses on loan books and to many banks withdrawing from the shipping sector, the banks have returned in increasing numbers in recent years. One banker recently estimated that 111 banks were actively involved in shipping finance compared with 45 four years ago. Pressure on margins in other areas of corporate lend*ing* and a growing pool of readily available capital have left the banks keen to develop profitable markets. Because of the risks inherent in shipping, bankers are generally able to charge higher margins.

But the dominance of loan finance also reflects the conservatism of many smaller shipowners. Much lending to such companies is done more on the basis of personal knowledge of the individuals involved and less on a formal credit assessment, says Mr Harrington. But such companies would be unwilling to accept the exposure of their finances to public scrutiny to raise funds on a stock exchange or through a private placement or would be unable to satisfy the criteria of the providers of finance.

> Leasing is growing and there are moves to the bond and equities markets

The last significant round of equity financings occurred in 1993 when companies such as Smedvig Tankships, First Olsen and Bona Shipping came to market or, like London & Overseas Freighters and ICB, carried out share placings or rights issues.

Preparing a private company for a public market place can be a time-consuming and difficult task but it is essential if outside investors are to become involved. "Investors want clean structures which will be acceptable to the major stock exchanges," said one analyst. The absence of a broadly based market in shipping stocks becomes self-fuelling. A shortage of analysts and investors who understand the sector means that any new issue requires an extra effort from its promoters. "For an industry the size of shipping, listed companies are relatively few, so investment research is limited and investor understanding at generally low levels," a 1994 study of London's role as a shipping services centre concluded.

The large number of banks now involved in shipping finance have meant that lending terms have moved in favour of the borrower. There are specialised shipping finance banks in continental Europe but many banks engaged in general banking *have developed teams to serve* the shipping sector. RBS has a team of 60 in Piraeus to serve its many Greek clients.

The high rate of new orders in several sectors of the shipping market is beginning to concern some lenders.

A spate of new orders for dry bulk carriers threatens to depress earnings in this sector in the near future although the tanker sector is closer to balance.

The order book in the container sector currently amounts to one third of the existing fleet, although bankers console themselves that a structural shift to containers is still continuing and the market should be able to absorb the new capacity without too much difficulty.

■ **The maritime power of Greece:** by Nigel Lowry

Hellenes' thousand ships

National traditions explain why Greek owners control *half the European Union's* merchant fleet

Fifty years after Greece rebuilt its ravaged fleet from 100 American surplus war cargo ships, its shipping industry appears to be on the crest of a wave.

Since 1989, Greece has controlled the largest merchant fleet in the world and has been expanding it every year. In April, it reached an aggregate of 130m deadweight tons, or more than 16 per cent of all cargo-carrying capacity afloat.

It is hard to explain other than by tradition why a country with little other clout in international business should be such a power in this highly difficult and capital intensive industry.

"Our success is due, we believe, to our accumulated know-how and experience and our full adherence to the laws of supply and demand," says John Gournas, president of the Union of Greek Shipowners. According to a leading London shipbroker, "Greeks often have the vast technical experience to purchase ships which others would struggle to operate and they are frankly way ahead in terms of looking after their ships properly."

This may explain why the Greek-owned fleet is so large and on average three years older than the international norm.

Meanwhile, though, the industry is being rejuvenated from within as new shipowners emerge, blending the hands-on wisdom of their fathers with literacy in modern business techniques.

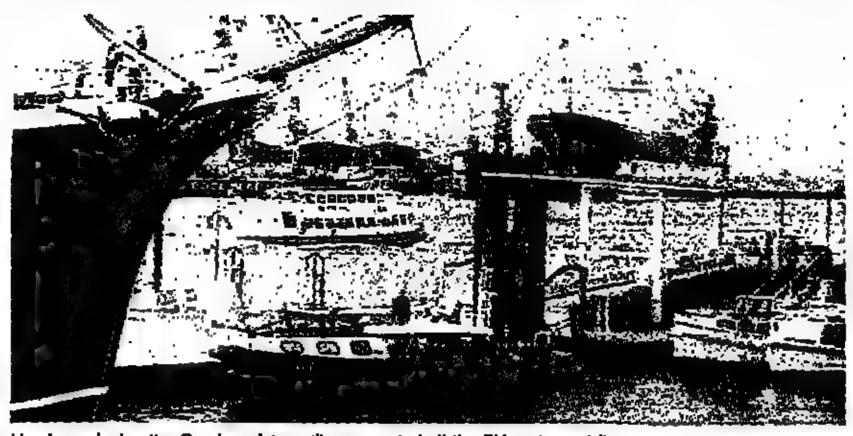
According to shipping bankers, Greece's maritime community which is spread between Piraeus, London and the US and Switzerland, has anything between $40bn and $70bn in reserves. Much is said to be in the hands of older shipping families *who have been less active than in the past* but might be persuaded to jump in with both feet if freight rates reversed their decline and the price of vessels fell.

Admittedly, there are some clouds on the horizon. There are plenty of complaints about the tide of international and unilateral legislation which has swept the industry. Hackles were raised in Piraeus, for example, by the introduction of a worldwide international safety management code, which will shortly become mandatory for all managers of ships. Despite a subsequent relaxation of Greek reaction, only 1 per cent of companies which have so far satisfied the code's requirements are Greek.

Shipowners have few complaints, however, about their treatment in Greece itself where they have enjoyed offshore status for more than three decades. The main levy on the industry is a flat, reasonable tonnage tax, which is only applied to Greek-flag vessels.

Consequently, the main talking point between owners and government concerns ways of tempting ships back to the home registry which, even though it has lost about 55 per cent of Greek-controlled shipping, is still large enough to account for about half of the EU-registered fleet.

"We have managed to develop a strong trilateral cooperation between state, shipowners and seafarers," claimed Kosmas Sfyrion, minister of merchant marine. Keeping internal interference to a minimum has left successive governments free to focus outwards on championing a liberal approach in international maritime forums. "The cornerstone of our policy has always been to retain a freely competitive environment in international maritime transport," said Mr Sfyrion.



Hamburg docks: the Greek registry still represents half the EU-registered fleet

On finance, Greek shipping rarely strays from traditional formulae. The Anangel and Tsakos groups, which operate oil tankers and dry cargo vessels, have developed public arms which are traded on stock exchanges in Europe and *the US. In 1993, Eletson Corporation,* a petroleum products tanker specialist which has been a pioneer in constructing tankers with double hulls, made a successful $140m bond issue on Wall Street.

But the number of equity or debt offerings involving Greek shipping firms is much lower than their presence in the industry warrants, and financiers generally believe this pattern will change little in the future. Apart from the risky reputation that makes any shipping deal hard to sell to investors, Greek shipowners themselves advance many other reasons for remaining solidly private.

Culturally, most are still reluctant to meet the financial disclosure requirements of outside capital markets, while going public threatens to blunt the flexibility for which they are justly famous.

A Greek shipowner likes to pick his moment to buy or sell a vessel and many have made their initial fortune through asset plays. At the same time, there is a general preference for trading on the volatile spot market rather than locking ships into lengthy time charters which can hinder an owner's ability to take advantage of any sudden boom in freight rates. This may have proved a shrewd stance time and again, but is not usually the kind of behaviour which builds morale in annual reports to shareholders.

Besides, the cost of traditional bank finance for respectable operators has come down in recent years to the point where it probably works out cheaper than equity, and there is no shortage of competition among international banks to provide lending.

Newcomers such as Den Norske Bank, Mees Pierson and ING, all of which are among this year's arrivals, have enabled the Greek port to surpass London in terms of hosting foreign shipping desks.

Whether they have a permanent presence in Piraeus or not, several leading banks including Royal Bank of Scotland and the Bank of New York say that loans *to Greek clients* comprise the lion's share of their worldwide shipping portfolios.

Besides banks, other service sectors such as shipyards, English marine law firms and equipment suppliers have gravitated towards Greece during the 1990s and the burgeoning size of the Posidonia exhibition every two years also attests to the country's growing drawing power in the shipping world.

Yet it would be an exaggeration to say that Piraeus has become an international maritime centre in the true sense. For one thing Piraeus, unlike London, New York or even nowadays Cyprus, is almost entirely for Greeks and offers little in the way of services that the roving international shipping entrepreneur cannot find elsewhere. For another, its infrastructure still leaves a lot to be desired, as shown by a trickle of leading shipowners who have recently left the cramped port for new buildings on the outskirts of Athens.

☐ *The writer is Athens correspondent for Lloyd's List newspaper*

BUSINESSES FOR SALE

KPMG

FACIA GROUP

Contessa (Ladieswear) Limited
Oakland Menswear
Red or Dead Limited
Torq Fashions Limited

(all in administrative receivership)

Sock Shop Holdings Limited

The Joint Administrative Receivers offer for sale the business and assets, and in the case of Sock Shop Holdings Limited the share capital, of the above subsidiaries of Facia Limited as going concerns.

	Type of business
Contessa	Specialist lingerie and nightwear retailer with 123 outlets
Oakland	Fashion menswear retailer with 31 outlets
Red or Dead	Leading edge fashion designer, retailer and wholesaler with international reputation
Torq	Costume jewellery, watches and accessories retailer
Sock Shop	Specialist socks, hosiery and underwear retailer with 95 outlets and a developing overseas franchise operation

- **well established retail brand names**
- **mix of own label and other brands**
- **key retail locations**
- **national chain of retail outlets, with strong presence in the South East**
- **distinctive retail positioning**

For further details relating to the group please contact the following:

Group Enquiries	Tony Thompson at KPMG, PO Box 730, 20 Farringdon Street, London EC4A 4PP	0171 311 1000	0171 311 3607
Contessa/Sock Shop	Mike Blake at KPMG, Arlington Business Park, Theale, Reading RG7 4SD	01734 642000	01734 642284
Oakland/Torq	Steve Treharne at KPMG, 1 Forest Gate, Brighton Road, Crawley RH11 9PT	01293 652000	01293 652129
Red or Dead	Julian Walker at KPMG, PO Box 730, 20 Farringdon Street, London EC1A 4PP	0171 311 1000	0171 311 3607

KPMG Corporate Recovery

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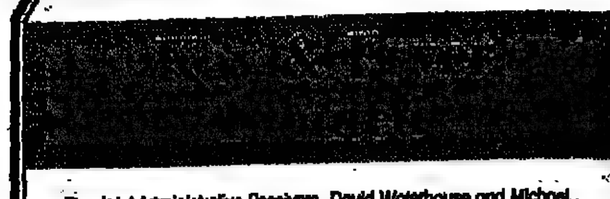
HOTEL AND SHOP FITTER



The Joint Administrative Receivers, David Waterhouse and Michael Moore, offer for sale the business and assets of this well established South Yorkshire based company, specialising in shop fitting and hotel refurbishment to a superior standard.

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The last major show of Charles Rennie Mackintosh, architect, designer and painter, was by Andrew McLaren Young for the Edinburgh Festival and the Victoria & Albert museum nearly 30 years ago, in 1968, the centenary of Mackintosh's birth. Yet while it extended his reputation beyond art and architectural history, it also fixed an image of his work that has persisted. For those were the days of the *art nouveau* revival and its exploitation in modern commercial terms. If Mackintosh the architect was remembered, it was the designer and decorator, all spindles, slats and lattices hung with roses, who was celebrated.

In the meantime, the fortunes of the work itself have been rather mixed. Even while original furniture was going through the roof at auction, the buildings for which it was designed were being threatened, if not destroyed. Glasgow long remained at best indifferent to its distinguished modernist son.

The Scotland Road School (1903) was threated by a new road, but spared. In 1963, Glasgow University knocked down the house where Mackintosh and his designer wife, Margaret Macdonald, had once lived, though it kept the interiors. These monuments to a shared aesthetic were reinstated in 1981 in a bizarre concrete extension to the Hunterian Art Gallery. The Hill House (1904), built and designed throughout for Walter Blackie, was sold for a song in 1972 on condition that all should remain as it was. Saved *pro tem* by the Royal Institute of Architects in Scotland, it was taken on by the National Trust of Scotland only in 1982.

His Willow Tea Rooms (1903) for Miss Cranston survive much altered, but the more extensive Tea Rooms in Ingram Street, that she opened piecemeal between 1901 and 1911, came down in 1971 and their interiors disappeared into the city's care, where they have long mouldered. The reinstallation of the Ladies' Luncheon Room (1901), set up at the heart of this show, would have been impossible without the detailed survey and working drawings undertaken by Lucy Parr and Graham Shearer, two young Glasgow architects. We only hope the city has the *nous* to ask them to rescue the lot.

The miracle is that the Glasgow School of Art, Mackintosh's masterpiece, should have survived not as a museum-piece, but still serving the purpose for which it was built. A bit scuffed, militantly unprecious in warding off the dead-hand of preservation, smelling of paint, dust and students, it is a splendid corrective to the careful, do-not-touch distance of the exhibition at the bottom of the hill. For these are Mackintosh balustrades the students lean on, and these his doors they swing and push through. These are his doorknobs, his latches, his chairs and shelves, cupboards and tables. It is not by chance the students themselves have always called their school "The Mack".

The Hill House, near Glasgow, built and designed throughout by Charles Rennie Mackintosh and his wife Margaret for Walter Blackie in 1904, was sold for a song in 1972. Only in 1982 was it taken on by the National Trust of Scotland.

Rebuilding a reputation

William Packer on the neglected work of Charles Rennie Mackintosh

Mackintosh won the competition for the design of the School of Art in 1896, when just 28 and still assistant architect in the firm of Honeyman & Keppie. This latest show celebrates this centenary, curated by Pamela Robertson of the Hunterian and J. Stewart Johnson of the Metropolitan.

Its particular virtue is to set the full scope of Mackintosh's work firmly within the broader context of his time. For too long, he has been seen in isolation, a prophet of modernism honoured abroad, ignored at home. Here the myth of that isolation is exploded. The example of William Morris and the Arts & Crafts Movement is clear, naturally moderated by Mackintosh's own evident and lasting engagement with the Scottish vernacular. Also made clear is the importance of his working relation with his wife, whose decorative gift was a major influence upon his own.

As to the myth of his celebrity abroad, it is true that he was invited to show with the Vienna Secession in 1900, and at the Turin International two years later. Articles on him appeared in international magazines, and he made lasting friends of German and Austrian designers. But for all that, no commissions came of it, and his practice remained centred upon Glasgow until 1914.

What is true is that he died at 60 in comparative poverty, a frustrated and forgotten man. His practice had slowly petered out with a few interiors here and there, though Miss Cranston remained loyal. With the completion of the Glasgow School of Art extension in 1909, no further major commission came his way – the remodelling of a terrace house in Northampton (1916); a studio in Chelsea (1920).

He and Margaret left Glasgow in 1915, first for Walberswick in Suffolk, where he was suspected of being a German spy, and then for Chelsea where they more or less settled, though with extensive periods in France through the 1920s. He turned increasingly to painting, still lifes, landscape and exquisite botanical studies, for the most part in water-colour.

His tragedy was that fashions change, even in Glasgow, and Bankers' Classical replaced his asymmetrical and decorative Baronial. And he could see no way forward for himself. By the time of his death in 1928, Bauhaus and Art Deco modernism were already tacitly acknowledging their debt to him, and by the logic of his work, as we see it now, he should have been with them, the essential link between Arts & Crafts and the Modern Movement. He dropped out, but the link remains.

Charles Rennie Mackintosh: McLellan Galleries, 270 Sauchiehall Street, Glasgow, until September 30, then on to the Metropolitan Museum, New York, the Art Institute of Chicago, and the Los Angeles County Museum of Art. Sponsored by Glayva Liqueur.

Concerts/David Murray

Plugged in to premieres

There were two substantial premieres last week – one for large orchestra with jazz soloists, Mark-Anthony Turnage's *Blood on the Floor*, the other for large chorus with orchestra, Nicholas Maw's *Hymnus*, which was commissioned by the Oxford Bach Choir for its centenary. The latter, performed in Oxford's Sheldonian Theatre, set two early Latin-Christian hymns to warmly respectful, expansive music. Turnage's premiere on the South Bank made more noise, as it was designed to do.

Much more noise, for everything was amplified: not just the brave double quartet of strings – plus two double-basses, one plain old "acoustic" and one electric – but even the heavy brass and percussion. We had been decently forewarned, so some of the audience came equipped with earplugs. Classical music-lovers, it seems, are more wary of losing their high-frequency hearing than are modern jazzers.

Listening without a prophylactic, I found the decibel-level a safe notch below the point where I get frightened, but it was fairly searing. It was also odd: modern(-ish) jazz, which Turnage loves and reveres, rarely goes in for amplification on that aggressive scale. It is really a disco-phenomenon: with your mind swamped by the sound, you dance in instinctive freedom whilst wrecking your eardrums.

I suspect that the savage amplification, controlled of course from a central keyboard, was needed not only to adjust the balance of grossly unequal instrumental forces, but to lend factitious vehemence to some of the music. For the nine movements of *Blood* – much more than a suite, though less than a fully "symphonic" construction – need some towering climaxes; and yet Turnage's preferred vein recently has been gently introspective, faintly sour and melancholy.

Those movements have been growing since 1963, from "Junior Addict" (a collaboration with the jazz keyboard-player Django Bates, around the time when the composer realised that his brother Andrew was a serious druggie) through "Elegy for Andy", an eloquent threnody for – and no doubt partly by – the jazz guitarist John Scofield.

Like Turnage's *Three Screaming Popes* of 1989, *Blood on the Floor* is expressly "after" a Francis Bacon image, an icon of modern-urban desperation and despair. Yet the hectic tuttis counted for less than the musing solos and duets, variously for saxophone, alto flute, bass clarinet, trombone. My earplugged guest, an American composer, remarked that with the volume turned down the actual workings-out of the music sounded tame. Peter Rundel conducted the Ensemble Modern in an efficient, confident performance.

Maw's *Hymnus*, naturally a more decorous affair, had the Oxford Bach Choir and the City of Birmingham Symphony conducted by Christopher Robinson. It begins with pre-dawn musings at the very bottom of the register, in E-flat minor, and concludes ethereally in D major. In between, the chorus has plenty to do (and did it very well), with the sung words often backed by wordless crooning.

The usual devices of choral music – close canonic imitation, and so forth – are expertly deployed. There are flashes of bright colour from the orchestra, though Maw seems to have taken care not to write anything especially taxing for it. The choral climaxes filled the Sheldonian gorgeously.

Hymnus is a well-made piece, and palatable for any audience; it is one of Maw's most "conservative" works, even somewhat bland. The second hymn often finds itself in the same territory as Holst's "Venus" movement from *The Planets*, and indeed "Neptune" too. Familiar pleasures . . .

Opera/Richard Fairman

A Mozart treat

It is ironic that there are leading arts institutions applying for lottery money to build new theatres large and small, when the BOC Covent Garden Festival each year manages to find a host of dark theatres, little-used churches and hidden halls. All it takes is a bit of imagination.

The largest indoor venue is the Freemasons' Hall, which probably attracts some people who just want to get a look inside. This year – reflecting the artistic balance of the festival – it will hold both musical theatre and opera. The challenge is always to find an event to suit its heavily ornamented interior: from Wednesday it is due to become King Arthur's castle in *Camelot*, while at the weekend it was the sultan's palace in Mozart's *Zaide*.

That neatly creates another link, as Mozart was a freemason himself. *Zaide* is an early Singspiel (or music theatre work with spoken dialogue in German) which looks at the themes of punishment and forgiveness, slavery and freedom, which seem to have captured the popular imagination at the end of the 18th century. Mozart left it unfinished, but there is a vogue today for seeing what one can make of these half-written, neglected pages from a master's pen.

The festival's production, directed by Luc De Wit, played the drama in modern dress, but left the place unspecified (Turkish bath robes excepted). Getting opera singers to deal with spoken lines is difficult at the best of times let alone in the round, but *Zaide* is a naive piece of theatre and the cast's artlessness at least did not jar with the simple-minded words they were speaking.

The reason one sits through the opera today is, of course, its music. "Ruhe sanft", Zaide's first aria, is one of Mozart's most beautiful creations for soprano and Anne Cambier sang it with due delicacy. Iain Paton was the sure tenor Gomatz and Russell Smythe brought some dignity to the role of Allazim, the jailer with a conscience. Ashley Thorburn sang Osmin and John Bowen was the dictatorial sultan Soliman.

If it all sounds like *Die Entführung aus dem Serail*, that is because Mozart used *Zaide* as a dry run for that minor masterpiece – clever of the festival to tie in its production with the Royal Opera's performances of the later work.

It was preceded by *The Impresario*, Mozart's slight comic scene between two warring prima donnas. In the festival's version Elizabeth Vidal's French poodle of a soprano was pitted against Judith Howarth's Australian dingo and the fur flew, aided by spruce playing from the Academy of Ancient Music under Paul Goodwin. It raised a good laugh, which is more than I imagined the piece could ever do.

Curtain up on listed theatres

Theatres and works of art feature strongly in the latest recommendations by English Heritage for listing, published yesterday. Once selected, it is more difficult to alter or demolish listed buildings and structures.

The Chichester Festival Theatre is recommended for Grade Two* listing, along with the National Recreation Centre at Crystal Palace and the Snowdon Aviary and the Elephant and Rhino House at London Zoo. Other buildings for which English Heritage is seeking Grade Two listing are the Belgrade Theatre, Coventry, the Old Vic Annexe, London, the Congress Theatre, Eastbourne, the Rosehill Theatre, Copeland. The Curzon Cinema in Mayfair has also been selected.

After a two-month consultation period, Virginia Bottomley, the heritage minister, makes the final decision.

Theatre/Ian Shuttleworth

Orton sing-a-long

The good news is that Phil Willmott of The Steam Industry has turned out a much better than passable production of Joe Orton's 60-minute television play. The bad news is that he has embedded it in a two-hour Dennis Potter-style musical.

The casting is a dream, albeit one which does not always pass smoothly. Bette Bourne, a magnificent actor who normally is to drag queens what Handel's *Messiah* is to sing-along hymns, is superb as Pringle, the fraudulent, sanctimonious leader of a religious cult who attains celebrity as an uxoricide and is then blackmailed with the threat of exposure as being innocent (this is Orton, after all). Bourne is a master of the dynamics of performance, whether covering effortlessly when he "dries", waiting out laughs to deliver the next line or drop-kicking Orton's perverse epigrams perfectly between the posts: "Love thy neighbour", he is admonished as he advances upon his wife; "The man who said that was crucified by his," he replies almost off-handedly.

Pringle's wife Tessa is played by Aimi Macdonald. Little else need be said: more than 30 years on from *At Last The 1948 Show* she is still the squeaky, dizzy, innocent blonde *par excellence*, a fine foil to both Bourne and Sylvester McCoy as McCorquodale, the invalid defrocked priest whom she tends and with whom she lives after her faked murder. McCoy, fresh from morphing into Paul McGann in *Doctor Who*, dodders for all he is worth and, truth to tell, rather more than necessary, but it is hard to begrudge a little excessive teacup-clinking.

The weak link is Adam Ant as Caulfield, the young thug engaged by Pringle to do his dirty work. In recent years the erstwhile dandy highwayman has been keen to establish credibility as an actor; having played in Orton before now (in *Entertaining Mr Sloane* at Manchester's Royal Exchange), he should know better than to tramp through the production in a low key, and his wooden naturalism encapsulates the common view of pop-star acting. When a stage entrance came late on the press night, the other three principals won the audience by fumbling around tittering whilst poor Adam did his best to merge with the furniture. He stands, but he does not deliver.

Conceivably Ant simply needs more direction; Phil Willmott is clever and inventive, but stronger on cheeky ideas than on precise execution. This becomes glaringly obvious with the superstructure he has bolted onto the play. Five male supernumeraries play policemen who are supposedly re-enacting the events of the crime, but in fact are simply there to enable the staging of a clutch of interpolated musical numbers, usually in skirts.

As with Willmott's *South Pacific* at the Drill Hall last winter, exuberant camp is expected to make up the deficit in tightly-drilled choreography, and once again it fails. More damagingly, the songs either make explicit subtexts that do not need explicating or are nakedly gratuitous. Bourne stalks the audience with hilarious menace during "Walking After Midnight", and Adam Ant proves with "Calendar Girl" that he is lost without a microphone, but the numbers are wholly unnecessary except to pad out the running time, and consistently hobble the dramatic action.

True, the dramatic production alone is worth the ticket price, and we get more than just that. In this case, however, more is much, much less.

At the Drill Hall Arts Centre, London WC1 until June 22 (0171-637 8270).

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw
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● Koninklijk Concertgebouworkest: with conductor Riccardo Chailly and violinist Frank Peter Zimmermann perform works by Berg and Bruckner; 8.15pm; Jun 6

■ ATLANTA

OPERA
The Fox Theatre
Tel: 1-404-881-2000/892 5685
● Madama Butterfly: by Puccini. Conducted by William Fred Scott and performed by the Atlanta Opera. Soloists include soprano Nicole Philibosian, tenor John Fowler, baritone Ned Bart and mezzo-soprano Kitt Reuter-Foss; 8pm; Jun 6, 8

■ BALTIMORE

CONCERT
Joseph Meyerhoff Symphony Hall
Tel: 1-410-783-8000
● Baltimore Symphony Orchestra: with conductor David Zinman perform works by Wagner and Mozart; 8.15pm; Jun 6, 7, 8

■ BERLIN

EXHIBITION
Bröhan-Museum
Tel: 49-30-3214029
● Wasserwelten. Das Motiv des Wassers in der Kunst des Jugendstils: exhibition devoted to water as a source of inspiration for the artists of the Art Nouveau movement. At the turn of the century, artists made extensive use of waves, sea, fish, nymphs and sea animals as elements of decoration. The display includes paintings, porcelain, and works in metal and glass; to Sep 15

■ BIRMINGHAM

CONCERT
Symphony Hall
Tel: 44-121-2002000
● City of Birmingham Symphony Orchestra: with conductor Sir Simon Rattle and pianist Peter Donohoe perform Gershwin's A Cuban Overture, Piano Concerto and Rhapsody in Blue; 7.30pm; Jun 5

■ HOUSTON

EXHIBITION
Contemporary Arts Museum
Tel: 1-713-526-0773
● Richard Long: Circles Cycles Mud Stones: British artist Richard Long is renowned for his meditative walks which inspire his creation of artworks that evoke the surrounding landscape. For this presentation Long has created four works composed of regional materials, such as Santa Fe brick and Texas limestone. In addition to these works, the display includes photographs and text documenting the artist's walks through West Texas; to Jun 30

■ LEIPZIG

CONCERT
Gewandhaus zu Leipzig
Tel: 49-341-12700
● Symphony No.8: by Bruckner. Performed by the Gewandhausorchester with conductor Rolf Reuter; 8pm; Jun 6, 7

■ LONDON

CONCERT
Barbican Hall Tel: 44-171-6388891
● Philharmonia Orchestra: with conductor Evgeny Svetlanov and pianist Evgeny Kissin perform works by Rachmaninov and Stravinsky; 7.30pm; Jun 5
Wigmore Hall Tel: 44-171-9352141
● Die schöne Müllerin: by Schubert. Performed by tenor Christoph Prégardien and pianist Michael Gees; 7.30pm; Jun 5
EXHIBITION
National Portrait Gallery
Tel: 44-171-3060055
● David Livingstone and the Victorian Encounter with Africa: this exhibition offers an account of the life and times of David Livingstone, from his birth and childhood in the cotton mills of Lanarkshire to his journeys as missionary and explorer across the continent of Africa. The display also examines the political and ideological background to African exploration, the activities of missionaries and hunters in southern Africa in the early 19th century and the travels of fellow explorers; to Jul 7
OPERA
London Coliseum
Tel: 44-171-8360111
● Fidelio: by Beethoven. Conducted by Richard Hickox and performed by the English National Opera. Soloists include Anthony Rolfe Johnson, Kathryn Harries, Keith Latham and Philip Sheffield; 7.30pm; Jun 6

■ MILAN

OPERA
Teatro alla Scala di Milano
Tel: 39-2-72003744
● Das Rheingold: by Wagner. Conducted by Riccardo Muti and performed by the Opera Teatro alla Scala. Soloists include Kim Begley, Violeta Urmana and Gudjon Oskarsson; 8pm; Jun 6, 8

■ MUNICH

CONCERT
Philharmonie im Gasteig
Tel: 49-89-48098625
● Symphonieorchester des Bayerischen Rundfunks: with conductor Myung Whun Chung perform works by Dvorák and Prokofiev; 8pm; Jun 5, 6

■ NEW YORK

MUSICAL
Shubert Theatre
Tel: 1-212-239-6200
● Big: by John Weidman, Richard Maltby Jr and David Shire. Directed by Mike Ockrent and choreographed by Susan Stroman. Leading the 30-member cast is Daniel Jenkins as Josh. Also featured in the cast are Crista Moore, Jon Cypher, Barbara Walsh, Gene Weygandt, Brett Tabisel and Patrick Levis; Tue - Sat 8pm, Sun 3pm, Wed, Sat also 2pm; to Nov 30 (not Mon)

■ PARIS

DANCE
L'Opéra de Paris Bastille
Tel: 33-1 44 73 13 99
● Symphony No.9: a choreography by Maurice Béjart to music by Beethoven, performed by the Ballet de l'Opéra National de Paris and the Orchestre et Choeurs de l'Opéra National de Paris, conducted by Sebastian Lang-Lessing. Vocalists include soprano Sharon Codte, alto Hélène Perraguin, tenor Stefan Margita and bass Ronnie Johansen; 7.30pm; Jun 6, 8

■ ROME

OPERA
Teatro dell' Opera di Roma
Tel: 39-6-481601
● Simon Boccanegra: by Verdi. Conducted by Bruno Bartoletti and performed by the Opera di Roma. Soloists include Renato Bruson, Daniela Dessi and Ruggero Raimondi; 7.30pm; Jun 7, 8 (6pm)

■ THE HAGUE

DANCE
Theater aan het Spui
Tel: 31-70-3465280
● Springdance: a choreography by Krisztina de Châtel to music by J.S. Bach, performed by the Krisztina de Châtel dance group. Soloists include Anne Affourtit, Andrea Beugger, Ann van der Broek, Heike Kreutzer and Natascha Siegertsz; 8.30pm; Jun 7, 8

■ VIENNA

OPERA
Wiener Volksoper
Tel: 43-1-514442960
● Un Giorno di Regno: by Verdi. Conducted by Asher Fisch and performed by the Wiener Volksoper. Soloists include Silvana Dussmann, Kathalin Halmai, Renato Girolami and Alfred Sramek; 7.30pm; Jun 5

■ WASHINGTON

EXHIBITION
National Gallery of Art
Tel: 1-202-7374215
● In the Light of Italy: Corot and Early Open-Air Painting: the achievements of the international group of painters who assembled in Rome and southern Italy at the end of the eighteenth century and the early years of the nineteenth century are represented by approximately 120 paintings; to Sep 2

■ ZURICH

OPERA
Opernhaus Zürich
Tel: 41-1-268 6666
● Ivan Susanin: by Glinka. Conducted by Vladimir Fedoseyev and performed by the Oper Zürich. Soloists include Iano Tamar, Cornelia Kallisch, Matti Salminen and Peter Straka; 7.30pm; Jun 5, 8

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands. *Tel: 31 20 664 6441*

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Squawk Box

10.00
European Money Wheel

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Financial Times Business Tonight

Martin Wolf

Japan's savings surfeit

The exceptionally high Japanese propensity to save explains many of the country's economic woes and threatens to pitch it back into another period of stagnation

With the return of economic growth, the Japanese economy seems to be floating freely once again. But appearances are deceptive. So long as the economy generates more savings than investment opportunities, it is in danger of being beached once more.

Japanese savings are gargantuan. In 1995, for example, gross national savings were $1,570bn. This was larger than the gross national products of all but two of the world's economies, the US and Germany. Japanese savings were a third larger than those of the US, at only $1,200bn, and almost three times as large as those of Germany, at $550bn.

Before 1974, when the economy grew at around 9 per cent a year, this thriftiness was a source of strength, as it is today in fast-growing east Asian economies. But the country is now caught in what Keynesians term the paradox of thrift. In the highly developed Japan of today it may be impossible for the private sector to find adequate opportunities for investment.

In elucidating this possibility, John Maynard Keynes remarked in his *General Theory of Employment, Interest and Money* that "the extent of effective saving is necessarily determined by the scale of investment". If investment was inadequate, he argued, economic activity would shrink, thereby reducing the quantity of excess savings.

The surfeit of savings does much to explain the problems of the Japanese economy since the mid-1980s. Between 1974 and the mid-1980s, external events – the two oil shocks and the strong dollar created by the policies of President Ronald Reagan – allowed the Japanese to avoid the difficulties attendant upon deteriorating opportunities. Between January 1980 and January 1985, for example, export volume rose by more than a half. The combination of export growth with the shift in the current account from a deficit of minus 0.8 per cent of gross domestic product in 1980 to a surplus of 4 per cent in 1986 kept the economy growing.

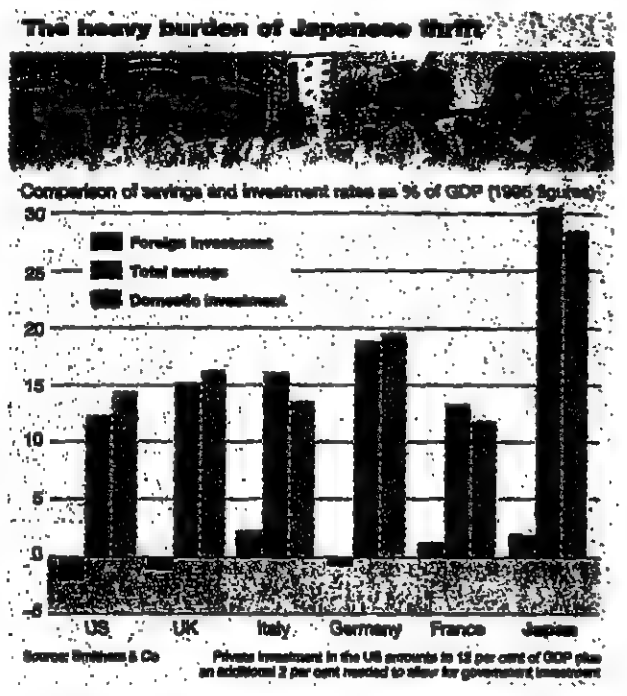
The strength of the Japanese external account finally brought the era of export-driven growth to an end. The currency appreciated from Y250 to the dollar in mid-1985 to a peak of almost Y80 in April 1995. This could have been prevented only by the willingness of Japanese investors to invest enough abroad to offset the trade surplus. But their foreign exchange losses rendered them unwilling to do so. The consequent real appreciation of the yen, on a trade-weighted basis, was 38 per cent between 1985 and 1995, according to J.P. Morgan. As a direct consequence of Japan's loss of competitiveness, the volume of Japanese exports rose by a miserable 21 per cent between January 1985 and January 1996.

The sluggishness of exports and the collapse in the profitability of investment in export production was the central element in a still bigger picture. The return on investment had fallen sharply since the 1960s, as could be seen from the collapse in the rate of economic growth, from 9 per cent to around 4 per cent. Yet the gross national savings rate remained some 30 per cent of GNP. How was all this money to be profitably invested?

As Andrew Smithers of Smithers & Co, a London-based investment advisor, remarked in a study of the Japanese economy published in 1993 (*Japan's Other Bubble: the Causes and Consequences of the Secular Trend of Corporate Investment*): "The threat posed by the decline in the return on capital was postponed during the 1980s by the twin impact of falling interest costs and the falling cost of capital." For a while, the "bubble economy", with its soaring nominal asset prices and resulting low perceived cost of capital, was the solution.

Business investment jumped from under 14 per cent of GNP at the beginning of 1983 to no less than 22 per cent of GNP in 1991. Overall, gross fixed capital formation rose from 26 per cent of GDP in 1983 to 32 per cent in 1991, growing at an annual rate of 7.2 per cent.

The heavy burden of Japanese thrift



Source: Smithers & Co. Private investment in the US amounts to 13 per cent of GDP plus an additional 2 per cent needed to allow for government investment

Such an extraordinarily high rate of investment seemed to make sense only while the prospect of capital gains made capital extraordinarily cheap. But the overvaluation of asset prices could not last. The bursting of the bubble in 1990 led to a decline in the real level of gross fixed capital formation. Stagnant exports plus declining investment equals sluggish manufacturing. Notwithstanding its modest recovery since 1993, manufactured output is still well below the level reached five years ago.

The Japanese economy has done more than succumb to the paradox of thrift. It is also in a "liquidity trap", in which monetary policy is of limited effectiveness. What then has made it possible for the economy to grow again after four years of stagnation? The answer is the exploding fiscal deficit. One observer, Richard Koo of the Nomura Research Institute in Tokyo, argues that all the stimulus has come from the fiscal side.

The fiscal loosening has been dramatic. According to last year's Economic Outlook from the Organisation for Economic Co-operation and Development, the general government fiscal balance moved from a surplus of 3 per cent of GDP in 1991 to a deficit of 3.9 per cent in 1995. The cyclically adjusted, or structural, balance deteriorated by 3.7 per cent of GDP. Without this fiscal compensation for excess savings elsewhere, the stagnation would have become a depression.

Fortunately, Japan's ratio of net public debt to GDP, at only 11.1 per cent in 1995, is low by international standards. The Ministry of Finance could get away with running substantial deficits for many years to come. But it loathes the very idea, not least because of the looming burden of an ageing society. In justifying its unwillingness, it will point to the ratio of gross debt to GDP, which is already 83 per cent. This will matter in the long run as the social security funds run down their holdings of public debt.

If the public sector can be the borrower of last resort only temporarily, what more enduring solutions to the problem of excess savings might there be? One might be sustained exports of capital. After all, for much of the late 19th century the UK exported capital equal to 5 per cent of GDP. Why should a rich country like Japan not do the same today? There is no good economic reason why not. But the fastest growing economies are already self-sufficient in savings, while the biggest borrower, the US, regards Japanese exports of capital as an act of economic warfare. More fundamentally, sustained large-scale capital exports may be incompatible with freely floating exchange rates.

If Japan cannot export its excess savings, the alternative is to absorb them at home. In considering the options, the authorities need to remember that even the current rate of investment, not far short of 30 per cent of GDP, looks unsustainable. If Japan is not going to grow much faster than other industrial countries, it cannot profitably invest so high a proportion of GDP, when its peers are investing 20 per cent, or less.

What Japan needs to do is to create opportunities for more investment and good reasons for less saving. Radical deregulation is the obvious answer. This would create new investment opportunities, in private housing for example. It would also encourage more borrowing by private households, thereby lowering the overall rate of household savings from more than 16 per cent of disposable income.

The only sure way to stabilise the Japanese economy is for the Japanese people to become less Japanese. They have to force themselves to enjoy the opportunities their hard work and thrift have created. The very magnitude of their success leaves them with no alternative to such radical change.

Patrick Harverson reports on the marketing bonanza surrounding the Euro 96 soccer finals

A whole new ball game scores a winner

English football may appear to have been stuck in the dark ages since the national team won the World Cup, but in the intervening 30 years the marketing of the game in England has changed beyond all recognition.

In 1966, the tournament's £2m-plus revenues came solely from ticket sales, although the Football Association, which hosted the tournament, did earn a £6,318 surplus from selling match-day programmes.

Today, £2m would not cover the cost to a corporate sponsor of buying the logo of Euro 96, this month's European football championship finals. So much money will be produced by the tournament, the biggest sporting event held in England since the World Cup, that in commercial terms 1966 will seem like a kick-about in the local park.

Euro 96 is expected to generate total revenues of more than £150m ($232.5m), of which only about a third will come from ticket sales. The remainder will come from the sale of television, sponsorship and other rights. Another £100m-plus will be spent on advertising and marketing schemes linked to the tournament.

The fact that football championships like Euro 96 generate such huge sums today reflects the sport's massive following, the power of television, and the sophistication of modern marketing techniques.

Euro 96's sponsors will have their names plastered everywhere, from billboards to buses, taxis to tube stations. Television commercials will proliferate, special sponsored events tied to the tournament will be held throughout the three weeks. Even the Internet has its own Euro 96 pages and advertising.

The core marketing of Euro 96 is being handled by a single specialist – the Swiss-based ISL Marketing. It has arranged all of the sponsorship on behalf of Uefa, the sport's European governing body overseeing the championship. This includes signing up the 11 official sponsors – Canon, Carlsberg, Coca-Cola, Fuji, JVC, Mastercard, McDonald's, Philips, Snickers, Vauxhall and Umbro – at the reported price of £3.5m each.

Uefa has also learned marketing lessons from the US, and for the first time has assigned the merchandising rights to a single company – Licensed Properties International – which will make the official T-shirts, baseball caps and 100 other Euro 96 products.

The eagerness of multinationals to be involved with the tournament is understandable: 1.3m spectators will attend the 31 games, which are expected to draw a cumulative television audience of 7bn people across 150 countries.

As Mr John Slade, marketing controller of Carlsberg, says: "It's a cliché but it's the biggest sporting event in Britain since 1966. Everyone will be talking about it and everyone will play some part in it. So it's the ideal way to demonstrate the relevance of our brand to, primarily, young men."

Ms Marianne Fulgenzi, director of special events marketing at Mastercard, makes a similar point. The credit card company is keen to build its brand in Europe, where it is less well-known than other more established cards. She says: "The younger market is not a bad place to start. Around that age is when people start to build brand loyalty."

The main beneficiary of the marketing bonanza will be Uefa, which will receive most of the direct income from the games. It will get about £40m from the official sponsors plus at least another £10m from second- and third-tier sponsors such as Microsoft and Midland Bank. The activities of these sponsors will include, for example, providing the technology for organising the event and other back-up services.

The FA, meanwhile, will also earn millions from Euro 96 although it will initially seek to cover the £18m cost of organising the championship. Mr Jonathan Hill, the FA's sales and marketing manager, says if 90 per cent of all the tickets are sold – as looks likely – the FA will make a small profit.

The involvement of the main corporate sponsors does not stop at paying ISL £3.5m to buy the rights to attach their names to the Euro 96 logo. Each is spending tens of millions of pounds more on marketing and advertising tied to the tournament – everything from the traditional (pitch-side billboards) to the unorthodox (such as Mastercard's backing for two rock concerts during the tournament).

Sponsors' TV commercials will be among the more expensive marketing items. The climax of these campaigns will be during the tournament itself, with the price of a 30-second commercial in the England games starting at £50,000.

Mr Slade says the bulk of the £20m that Carlsberg is spending on its brand support programme this year will go on the championship, while Coca-Cola is reportedly spending £14m on Euro 96.

The ultimate aim of sponsors is to swamp the country – and the wider TV audience – with images of their brands. As Ms Fulgenzi boasts of Mastercard's activities in London: "We basically want to own this city by the end of Euro 96 from a brand image perspective."

Yet with 11 main sponsors and scores of subsidiary backers, Euro 96 could suffer from marketing overkill. An executive at one of the main sponsors accepts it is a possibility: "Clutter could be a problem. There is a danger that everyone shouting at the same time will lead to confusion."

However, sponsors seem happy to take the risk. With the World Cup due to be held in France in two years' time, Euro 96 presents the perfect opportunity to start a two-year campaign to spread marketing messages across Europe.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
... Letters may be faxed to +44 171-873 5938 (please set fax ...
... Translation may be available for letters written in the main international languages.

Bosnia elections likely to lead to partition

From Ms Mabel Wisse Smit.

Sir, Under the present conditions elections in Bosnia-Herzegovina will lead to partition rather than reintegration of the country.

The international community defines "success" in Bosnia-Herzegovina as elections *per se* rather than free and fair elections. Since elections are a precondition for the scheduled withdrawal of Ifor, the international community needs them by September. Unfortunately, the Bosnian Serb leader, Radovan Karadzic, and his comrades are well aware of the tendency of western leaders to give effect to political expediency and their desire for elections at any costs.

But what will happen if extreme nationalists continue to control the media, obstruct freedom of movement, back nationalistic parties, and intimidate everybody who does not support their ideology?

Then the elections will legitimise the self-proclaimed leadership in the Republika Srpska, most of them proxies of Karadzic and Serbia's president Slobodan Milosevic.

Moreover, elections in the Republika Srpska could turn out to be a *de facto* referendum on partition. If internationally monitored elections result in a victory for separatist parties their leaders will proclaim that the will of the electorate should be respected.

Furthermore, the participation of "elected" Pale Serbs in the central government could bring it to a gridlock. Their refusal to attend the Brussels donor conference as part of an integrated Bosnian delegation discloses their willingness to frustrate the political process, even at their own economic expense. In addition, nationalists in "Herzeg Bosna" might be encouraged to pursue a similar path, thereby undermining the Federation and Bosnia-Herzegovina as a whole.

Moreover, tensions and even conflicts are likely to occur when the population realises that peace entails partition. Long-term success requires the willingness to postpone elections when and where the conditions have not been met. The extremist forces should not be allowed to hold democracy hostage in the entire country.

Mabel Wisse Smit,
executive director,
European Action Council for Peace in the Balkans,
PO Box 10018,
1001 EA Amsterdam,
The Netherlands

Russians will be more than usually anxious about age

From Mr Denis McDonough and Mr Frank Richter.

Sir, I wonder how a 58-year-old Russian man would feel this morning given the uncertainty felt by my roommate and me – two Generation Xers – upon reading articles on president Boris Yeltsin in the FT ("Comeback kid rising in polls", June 1/2) and in the Washington Post ("Invigorated Yeltsin hits hustings").

At 65 years old, has Mr Yeltsin, as the FT claims, "already lived six years longer than the average Russian man"? Or has he, as the Post states, "already exceeded the average life expectancy of a Russian male by eight years"? Or is Mr Yeltsin even 65?

For a couple of readers in Washington DC, the age and life expectancy of a seasoned presidential candidate is more than a minor issue. Besides, imagine how puzzled, and perhaps even anxious, that 58-year-old Russian man feels upon reading these two articles.

Please don't leave that poor Russian man – and millions of voters in Russia and the US – confused.

Frank Richter,
Denis McDonough,
2439 Tunlaw Rd NW,
Washington, DC 20007,
US

Casting out EU net provider

From Mr Ian Harrison.

Sir, I have immense sympathy with Mr Hans Schloten (Letters, May 30) who questions whether the time has not come for the rest of the EU to ask the UK to leave so that the Community can develop as the vast majority of its members wish. However I fear that he has overlooked one thing.

With the UK as a net provider of funds to the EU and the majority of members as net recipients who is going to propose the motion?

Much healthier would be for the UK to hold its own referendum on whether it wishes to continue its membership. The goodwill engendered by a vote to stay in would probably be sufficient to clear up the beef impasse overnight.

Ian Harrison,
32 Peascod Street,
Windsor,
Berkshire SL4 1EA,
UK

Flexible cost

From Mr Jonathan Targett.

Sir, Do the responses to Lucy Kellaway's thoughts on management consultants ("The physics of consultancy", May 20) miss the point? Consultants, no doubt, have a useful function as an intelligent and flexible pool of problem-solvers that the CEO can't always afford to keep on staff permanently.

But, as Lucy Kellaway points out, flexibility comes at a price, a price that many would-be family builders aren't willing to pay. It is an increasingly important debate, and she is right to raise it.

Jonathan Targett,
rue Ernest Solvay 15A,
1050 Brussels, Belgium

Climate change stance not negative

From Mr Michael Jefferson.

Sir, We were surprised to see the World Energy Council reported in "Debate warms up" (Business and the Environment, May 29) as taking a "negative stance on basic science" of possible climate change; as having "many energy industry executives" in disagreement with us because of this; and that the forthcoming Intergovernmental Panel on Climate Change second assessment reports "conclusions" are "an attempt to win research grants for scientists". None of this is true.

The World Energy Council has long advocated that precautionary measures, based upon the minimum regret principle, be taken – starting now – to tackle possible climate change.

We have never taken a "negative stance" on the basic science, which has been clearly established at least since 1896. We know of no informed energy industry executives who disagree. For the most part we regard the forthcoming panel scientific assessment as excellent. We have two concerns. First, a particular sentence suggesting "a discernible human influence on global climate", because it is not yet justified by the underlying scientific papers.

Second, the panel has revised downwards its projections of warming because of the cooling effect of sulphate aerosols. We are concerned because sulphur abatement measures are becoming cheaper and are likely to be installed faster, and hence cooling may be less.

Thus we advocate early precautionary measures but insist on objective analysis of the known facts. As contributors to the panel report ourselves we would expect no less.

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The French tax burden

"Too much tax kills tax". Thus Jacques Chirac used to sum up the failings of the French tax system while campaigning for the Presidency last year. Yet since he took office, plans for sweeping tax reforms have been sidelined by efforts to rein in public borrowing in time for Maastricht.

These days the pain of making another FFr 60bn cuts in public spending next year has put tax reform firmly back on the agenda. President Chirac promises that meeting the Maastricht criteria will involve no further large tax increases. But many in parliament are pressing for more – they want tax cuts, to soften the blow of continued budget cuts and generally kickstart the economy.

With France's bid for Emu still hanging in the balance, the government simply cannot afford to reduce tax revenues next year, although Prime Minister Alain Juppé yesterday reiterated the government's pledge to start cutting taxes after that. A strong revenue performance will be crucial to achieving a budget deficit of even close to 3 per cent of GDP in 1997.

Luckily for Mr Chirac, the French tax system is so inefficient that reforming it offers an opportunity to "cut taxes" without cutting revenues. Thanks to a complex web of deductions and tax loopholes, only around half the adult population pays any income tax and those that do pay very little. As a result, top marginal rates are among the highest in the industrial world, at nearly 56 per cent, yet the ratio of income tax revenues to GDP is among the lowest.

The system's other major failing – a direct consequence of the first – is the burden it imposes on employment income. Relative to GDP, revenues from social security payroll taxes are the highest in the OECD. Throw in a 20.6 per cent rate of Vat, and you have a system designed to ensure that the only people who pay for the country's elaborate system of poverty alleviation are the poor, or nearly poor, themselves (not least those who are kept out of work by the high level of non-wage labour costs).

Mr Juppé's preview yesterday of the five-year tax reform plan he will be presenting to parliament in the autumn showed that he understood what effective reform would involve. First, lower income tax rates and far fewer exemptions. And second, broadening the base of many social security contributions by shifting them away from payrolls. The worry is that the government will be too timid in translating these principles into concrete reforms. France has repeatedly shied away from the kind of comprehensive tax reforms which many countries carried out during the 1980s, and has paid the price for this in high unemployment and lost competitiveness. Five years is too long to wait to see this redressed.

Regulating BT

Oftel, the UK telecommunications regulator, has proposed a radical shift in its approach to the industry. This offers long-term gains for consumers, but exposes inadequacies in the rules governing regulation itself.

The proposals are based on the robust principle that competition is preferable to price controls. They have broad implications, which the government needs to consider as soon as possible. Oftel wants to remove direct price caps from a large part of British Telecommunication's business, but give itself much stronger powers to stamp out anti-competitive behaviour.

Under the new regime only 26 per cent of BT's revenues would be subject to price restrictions, compared with 64 per cent at present. Residential customers who do not use their telephones much would still be protected. After inflation, prices in this sector would be required to fall by 4.5 per cent a year, compared with the real annual reduction of 2.7 per cent during the last six years.

So far, BT has cut prices to business customers much more sharply than to residential users, partly to reflect its true costs. The latest pricing formula would probably move the balance back towards the home-owner.

But can competition really deliver the predicted benefits in the rest of the market? There are now about 140 companies competing to supply telecommunications services. If they are to thrive, they, as much as BT, require an open market with the minimum of pricing regulations. But BT will remain overwhelmingly the dominant supplier, with a strong interest in beating off competitors wherever it can. So a strong umpire is needed.

Mr Don Cruickshank, Oftel's director general, is therefore proposing to take sweeping new powers to stamp out unfair competition. This is necessary, because the present system for challenging anti-competitive practices is extremely cumbersome, possibly requiring a change to BT's licence and reference to the Monopolies and Mergers Commission.

The new proposal confronts a difficulty, however. Oftel would be arrogating to itself powers of intervention which, however desirable, were not envisaged in the 1984 Telecommunications Act. Companies affected by these new powers would inevitably contest the decisions as arbitrary – but challenging them in the courts would be slow and expensive.

Oftel is, in short, proposing a much changed role to reflect a level of competition which few people predicted when BT was privatised. The Government needs, therefore, to give it a new legal framework. At a minimum this should define its powers to enforce fair trading. And since such issues will be contentious, Oftel might be better structured as a commission than as a one-man band. Alternatively there might be a streamlined mechanism for appeal. A timely change in the law could prevent much bitterness.

Millennium calls

How fitting, perhaps, that it should be proving so hard to find a suitable home for the UK's proposed Millennium Exhibition. If plans for a £500m extravaganza in Greenwich bite the dust through lack of corporate interest, as appears increasingly likely, then the focus should shift to a more modest celebration.

Last year's Hyde Park festivities to mark the 50th anniversary of VE day show what can be done on a relatively modest budget. A national bash could be provided for a fraction of the £500m, or indeed of the £200m which the Millennium Commission is proposing to dispense from its lottery bonanza. And Birmingham could re-enter the frame, if ministers swallowed their prejudice against a national celebration taking place outside London.

As for making a lasting "statement" to greet the millennium, it was never self-evident that yet another exhibition complex answered the call. If the Greenwich construction is in any event only to be temporary, then it fails even on that score.

In short, the Millennium Commission should start from scratch and invite new suggestions for an appropriate project. There is still plenty of time.

The tribulations of the Millennium Exhibition highlight the wider issue of finding matching funding, which is dominating the agendas of those quangos responsible for dispensing the lottery billions devoted to "good causes".

The exhibition itself is not strictly a case of matching funding, since it is *sui generis* as a project, and intended to be at least partly a commercial proposition. But the reluctance of the private sector to stump up to meet any large part of the cost is all too typical of lottery projects.

A study last month of the 124 arts projects asking for over £100,000 in lottery funding – which are obliged to raise a quarter of their project costs through their own efforts – found that of the £60m these applicants were seeking from the corporate sector only 24 per cent has so far been confirmed. Similar stories are heard from the other lottery sectors, notably heritage.

In the short term, changes to the matching funding rules may be needed to reduce the proportion of non-lottery funding required. These should be considered alongside more widely touted changes to allow the lottery to fund project running costs, and not just capital as is now generally the case.

However, this debate raises anew the wider question of the desirability of the lottery's existing "good causes". Lottery income has far exceeded projections. It is time to reconsider the case for handing billions more to the arts, heritage, and grand projects for the millennium when many other deserving causes are clamouring at the gate.

A way out of the beef stew

Caroline Southey, Alison Maitland and **Peter Norman** on the difficulties in ending the dispute between the UK and its EU partners

Making the peace will be a lot harder than declaring hostilities. As the UK again wielded its veto and Europe's agriculture ministers considered lifting the export ban on British beef by-products, both sides in the so-called beef war could agree on one point yesterday. The 15 European Union nations will not easily find an overall settlement which will restore the punctured pride of Mr John Major's administration and meet the deeply felt concerns of its continental partners.

Since the British government announced over two months ago that there may be a link between BSE, or mad cow disease, and the fatal human condition Creutzfeldt-Jakob disease (CJD), science and politics have become dangerously entangled. Mr Major's decision to escalate the dispute by blocking all other EU business has made them inseparable. And two weeks into this latest stage in the conflict, the science remains uncertain and the politics unpredictable.

Finding a framework for the lifting of the ban will mean fitting together dozens of pieces in a three-dimensional jigsaw. First must come a practical programme to guarantee the safety of British beef which meets the concerns of the European Commission and most of the other 14 EU states. That will be hard enough, given the scepticism in continental Europe about the effectiveness of efforts so far to tackle the disease.

Even then Mr Major will have to calculate whether any agreement will command support inside the Conservative party. Senior colleagues such as Mr Michael Heseltine and Mr Kenneth Clarke want a deal at or before the Florence summit on June 21. But Tory Eurosceptics, emboldened by Mr Major's initial stand, are warning him against a retreat. The sceptics, with some support in the cabinet, see an opportunity to hold Mr Major hostage in a wider struggle against the EU.

Then comes a third dimension – the calculation which other EU governments must make as to whether they should bow to UK pressure. Some no doubt want the issue settled quickly. But others, most notably Germany, face intense hostility among their own farmers and consumers to any relaxation of the ban. Others still may simply decide not to respond to British blackmail.

In a tour of European capitals this week Mr Malcolm Rifkind, the foreign secretary, and Mr Douglas Hogg, the agriculture minister, will focus first on the practical considerations. There is an appreciation in London that its programme to eradicate BSE needs explanation in other EU capitals. The government's failure to inform the European Commission until minutes before its announcement on March 20 of the possible link between BSE and the new strain of CJD was followed by a series of other communications failures.

The publication yesterday of a 120-page document detailing the measures the UK government has taken to combat the disease is designed to recoup some of the lost ground. It explains the ban on the sale of beef in Britain from animals over 30 months, pointing out that about 1m cattle will have been destroyed by the end of the year. The government is also working on a "beef assurance scheme" which would allow back into the food chain specialist beef cattle over 30 months from herds that have never had BSE and that have been reared entirely on grass. Less than 5 per cent of annual production will be affected, but most of the animals will come from prestige herds in Scotland and Northern Ireland.

A separate system of compulsory "passports" for all cattle will track each animal from farm to market and abattoir. A national computer database system will be established to monitor the movements. Meanwhile, funding for the Meat Hygiene Service has been doubled this year to nearly £80m. Showing a willingness to consider new ideas, the government is also to make possession of animal feeds likely to cause BSE a criminal offence.

Mr Hogg's most controversial proposal is the selective slaughter of up to 80,000 cattle at greatest risk of contracting BSE. In the first year this slaughter would reduce the total number of BSE cases – 8,000 this year and 5,000 next – by 30 per cent at most. While some EU members feel this is not radical enough, British farmers may ultimately regard it as pointless – and the UK government has promised to respect their views.

In Brussels meanwhile, British and European Commission officials are attempting to slot such measures into a framework for the progressive lifting of the ban. There is no dispute over the basic approach. Assuming the ban UK exports of gelatine, tallow and semen is lifted within the next few days, a "causal" relationship would then be established between lifting the ban on other products and the measures needed to ensure they are safe.

One London priority is to lift restrictions on exports to third countries, 60 in all, which are barred from re-exporting beef or beef products to the EU. Another is ending the ban on the export of British calves and beef from BSE-free herds.

But one of the many ironies of the dispute is that Mr Major, the most strident defender of the sovereignty of the EU's nation states, cannot secure a deal merely by satisfying the Commission. Instead, he must meet the concerns of other member states. "We have to satisfy a wide spectrum of concerns," says one UK official in Brussels. "At the one end is Germany deeply resistant to any moves to lift the ban. At the other end is Sweden which feels this whole process is embarrassing."

The Bonn government looks certain to resist any easing of the ban in the foreseeable future. Germany's consumers have been giving beef from all sources a wide berth since March. Opposition to imports is also very strong among the federal states or Länder, at least four of which imposed their own bans on British beef and beef products before the March crisis. Any relaxation by the federal government would have to be approved by the Länder in the Bundesrat, the second chamber of parliament in Bonn.

The position of the federal ministry of agriculture is that the UK has not yet produced a convincing system to combat BSE. Mr Helmut Kohl, the German chancellor, is expected to discuss the issue with Mr Rifkind on the margins of a Nato meeting in Berlin later today. Mr Rifkind and Mr Hogg will also meet Mr Klaus Kinkel, the German foreign minister, Mr Horst Seehofer, the health minister, and Mr Jochen Borchert, the agriculture minister, for talks in Bonn on Wednesday.

It is unclear what these discussions can yield. The absence of firm suggestions from the Bonn government has prompted some diplomats to speculate that Germany will not back any easing of the restrictions until BSE has been completely eradicated. German officials are worried that contaminated animal feed is still in circulation in the UK. They are concerned also that the authorities cannot control what is going at farm, feed-producer and slaughterhouse level.

Ultimately, Germany alone may find it impossible to block a framework agreement. But Mr Major also needs to mend fences in other EU capitals. "Faith in the proposed framework will only be forthcoming if Britain inspires confidence. Few governments are confident that the UK government is in a hurry to find a solution to the BSE crisis," is the comment of one Dutch diplomat.

Such tensions have been exacerbated by the policy of non-co-operation. The next few weeks are packed with ministerial meetings providing Britain ample opportunity to wield its veto and appease the Tory Eurosceptics. But with every blocked decision, the EU's collective temperature rises, destroying the goodwill needed for a compromise. And Germany is not alone. Austria remains deeply sceptical about the UK's commitment to eradicate BSE and its ability to implement measures. Portugal, the Netherlands, Belgium and Luxembourg have also voted for the ban on exports of gelatine, tallow and semen.

Ministers from other EU governments, echoing the calls of senior British politicians such as Mr Douglas Hurd, the former foreign secretary, are calling for a speedy end to the policy of non-co-operation. "It must reach a point where the resistance by continental member states is such that they get as bloody-minded as the British," Mr Ivan Yates, the Irish agriculture minister, warned yesterday.

Thus there have been suggestions in Brussels that France, hitherto supportive of Mr Major's position, could withdraw its backing. The atmosphere of mistrust is fed by a suspicion among some officials that the prime minister does not want a deal – that he wants to fight the UK general election while at war with the rest of Europe.

With some imagination it is possible, just, to see the awkward shapes of this jigsaw being slotted together during coming weeks. But for all the disruption he is causing elsewhere in the EU, Mr Major can take nothing for granted. He may secure a framework for the lifting of the ban – but he has little or no prospect of winning a firm timetable for its implementation.

If the dispute is to be settled, others in Europe will undoubtedly be obliged to compromise. But so too will the British prime minister. Otherwise expect a long, bloody war.

· OBSERVER ·

No Labour of love

■ With the sound of Benjamin Netanyahu's victory rallies still ringing in Jerusalem streets, the knives have come out within the Labour party over the succession to Shimon Peres.

Labour insiders say their leader, who has failed in five attempts to win outright the prime ministerial election, must now go.

Labour's constitution allows a leisurely 14 months to find a replacement, but two contenders have lost no time.

On one side is Ehud Barak, the slick 54-year-old foreign minister and former army chief; on the other, Haim Ramon, 46, the interior minister.

Both fit the bill for "New Labour", as defined by the party newspaper, which has called for an infusion of "more telegenic politicians". And they mark a generational shift – Peres may well prove the last prime minister to have played a role in Israeli's creation in 1948.

But there similarities end. Barak's gung-ho appeal has been boosted by the Grapes of Wrath attacks on Lebanese guerrillas, while Ramon has built his career on support for the peace process.

Ramon, architect of admired trade union reforms, is thought the better wielder of the party machine, but his leadership of the failed election campaign makes him an easy target. Sour muttering is now emanating from the Barak camp about the failure to capitalise on sympathy for Yitzhak Rabin's assassination; insiders say that Ramon vetoed most proposals to use Rabin's image in advertisements.

But Barak has hardly endeared himself to his party by leading the calls for a new national unity government under Netanyahu – with himself as defence minister.

The two are so far ahead of the rest of the field that, whoever wins, they seem destined to be at each other's throats for years to come. Much like Rabin and Peres.

End game

■ The writing on the wall for Edzard Reuter would seem to be becoming more and more legible.

The man who left behind a loss of DM5.7bn, Germany's biggest ever corporate shortfall, at Daimler-Benz last year looks as if he may be in retreat from a number of the other boards he graces.

Professor Ekkehard Wenger, the influential scourge of German annual meetings who has developed an especially healthy dislike of Reuter, has just filed a motion to have Reuter removed from the board of Viag, the Munich-based conglomerate. Why? "The man is unbearable," Wenger writes.

There are signs Reuter may be becoming unbearable for others too.

Manfred Bischoff, the head of Daimler-Benz Aerospace and hence a mover and shaker at Airbus Industrie, the European aircraft consortium where Reuter heads the supervisory board, no longer refers to him in person but merely speaks of "the head of the supervisory board".

Nasty mismatch

■ It seemed the dream team, playing the dream match: Ilie Nastase, the flamboyant former tennis star, running for mayor of Bucharest, his home town, on the ticket of the powerful Social Democrats (PDSR), the governing party.

But, as the first unofficial results began to trickle in yesterday, it looked like playboy "Nasty" had been trounced by a dour trade union leader.

Officials of the PDSR, the former communist party, could barely contain their glee a few months ago when they persuaded Nastase to join their party and to stand in Sunday's local elections, the first national polls for nearly four years.

The party needs to bag a few big cities to keep momentum behind its campaign for the autumn's general elections. In a nation of sports-lovers, it thought that it had Bucharest sown up.

Nastase's campaign is believed to have spent $170,000, as much as the other 46 candidates combined.

But it seems that Bucharest residents, always less keen on the PDSR than much of the country, were unswayed by the Nastase posters on every street corner. His clowning around won few fans, nor did bursts of foul language.

The match is not yet lost, however. It was unclear last night whether 50 per cent of voters had even bothered to turn out.

If not, there may be two rounds to come.

Losing lament

■ Russia becomes more like a normal country by the day – although some locals may doubt whether this is a good thing.

The elections for mayor of St Petersburg are a case in point, showing that vicious muck-raking electoral battles, common enough in Washington or Rome, have finally reached the land of Lenin.

The city's defeated mayor, Anatoly Sobchak, blamed his defeat on "massive, professional defamation by my rival's election team".

Meanwhile, his deputy-turned-rival, Vladimir Yakovlev claimed Sobchak's supporters had been no less mean, accusing him of mafia links and media manipulation.

Democracy can be a messy thing.

The Financial Times

100 years ago

Cuba and the States

Washington:- The Foreign Relations Committee have taken no action on Mr Morgan's resolution recognising the belligerency of the Cuban insurgents. From an informal discussion, however, it appeared that some of the members were doubtful as to whether it would do the cause of the Cubans and the Americans in Cuba more harm for the resolution to be reported, and the Senate then to adjourn without taking action, than for the committee not to act on the resolution.

50 years ago

The French Elections

As a result of the French elections, the strongest party in the new constituent assembly is now certain to be M.R.P. Although a number of results have still to come in from the colonies, these are not expected to change the complexion of the results to any great extent. The Bourse reacted unfavourably to the election result. It is expected that M. Bidault, the outstanding leader of the Popular Republicans, will attempt to form a tripartite Government. There is little doubt that the Socialists, who are the real losers in the elections, will co-operate, but there is less certainty about the Communists.

FINANCIAL TIMES
Tuesday June 4 1996

French PM to spread welfare costs more widely

Juppé vows progressive cuts in tax and spending

By David Buchan in Paris

Mr Alain Juppé, the French prime minister, last night pledged to cut income tax progressively over five years – with commensurate public spending cuts – and to spread the burden of France's costly welfare system more widely.

At a televised press conference, Mr Juppé said his government would present in mid-September, in conjunction with its 1997 budget, a five-year programme setting out parallel reductions in spending and taxes.

He gave no details except that the plan would involve lowering all income tax brackets, creating a new universal health insurance charge and reforming the "professional tax", levied on companies' wage bills and investments.

In outlining his tax-cutting strategy so far in advance of producing precise proposals, Mr Juppé is aiming to quell mounting pressure for tax reductions from some of his backbenchers led by Mr Edouard Balladur, his predecessor. He is seeking to encourage consumers to spend more by holding out the prospect of lower taxes, and to give himself time to prepare the politically sensitive reforms.

The thrust of the reforms is understood to be in line with a report by a committee headed by a former chief inspector of taxes, which Mr Juppé received yesterday and which is to be published today.

Mr Juppé stressed that the report did not commit the government, which is to hold further consultations with parliament, employers and union leaders.

Mr Juppé said he would be guided by two principles – that no real tax reform was possible without reducing rates, and that no tax cuts were possible without reducing public spending at the same time.

Initial tax cuts in 1997 are therefore likely to be minimal, because the government needs to reduce the budget deficit by at least another FFr40bn ($7.78bn) in 1997 if France is to qualify in that year for European monetary union. This is expected to entail spending cuts of at least FFr60bn to counter unavoidable rises in state debt servicing and other fixed charges.

Mr Juppé confirmed that his plan to cut income tax rates, whose current top level is 56.8 per cent, would require abolishing many of France's numerous tax breaks – only half of French families pay income tax.

Mr Juppé said he intended to create a single health insurance charge for all, which would be levied on savings as well as salaries.

The prime minister hailed recent signs of vigour in the French economy, in particular a 1.2 per cent increase in first quarter national output and yesterday's announcement that the number of unemployed fell in April by 15,400, the second monthly improvement in a row.

But Mr Juppé's tax-cutting plans come in the wake of weak growth in tax receipts, running behind the economy's general expansion.

Editorial Comment, Page 17

Pressure grows on Netanyahu to pursue Mideast peace talks

By Edward Mortimer in London

Arab and western leaders yesterday increased pressure on Mr Benjamin Netanyahu, Israel's prime minister-elect, to continue with the Middle East peace process started by the defeated Labour government.

In Cairo, Presidents Hosni Mubarak of Egypt and Hafez al-Assad of Syria, described initial overtures from Mr Netanyahu as discouraging, but said they would give him time to show his real intentions.

In Washington, Mr Mike McCurry, the White House press secretary, said US president Bill Clinton sent letters to Arab leaders, reaffirming the US's commitment to the peace process.

In London, Mr John Major gave a warm welcome to Mr Yassir Arafat, president of the Palestinian National Authority, promising to "do what we can bilaterally to help the Palestinian state". Mr Major said his door would be open to Mr Arafat "on each and every occasion".

Such statements give a firm message to Mr Netanyahu, who has ruled out a Palestinian state and any meeting with Mr Arafat.

Mr Arafat said he expected Israel to honour its commitment, given by the outgoing government of Mr Shimon Peres, to withdraw from the West Bank town of Hebron on June 12.

Mr Netanyahu, who yesterday was trying to put together a coalition of his nationalist Likud bloc with religious and centrist parties, has avoided taking a clear position on the Hebron issue. But other leading figures in Likud have sought to rule out a withdrawal, suggesting that to do so would allow Islamic terrorists to use Hebron as a base.

Mr Netanyahu told the Likud parliamentary faction that he had spoken by telephone with Mr Mubarak and with King Hussein of Jordan, and they had agreed to meet as soon as possible once a government is formed. In his victory speech on Sunday night, he called on Israel's neighbours to "join the circle of peace".

But he did not mention peace with Syria and Lebanon, or give any sign he would be willing to withdraw from Arab territory. In the past he has ruled out restoring the Golan Heights to Syria. Mr Assad said a resumption of Syrian-Israeli peace talks was "not on the agenda".

Mr Mubarak, King Hussein and Mr Arafat are to meet tomorrow in Jordan, but representatives from Syria and Lebanon have not been invited. Tensions with Jordan over its alleged infiltration by Syrian saboteurs are one of many obstacles to effective Arab co-operation in face of the new hardline Israeli government.

Mr Mubarak said Egypt and Syria would not hesitate to take part in a full Arab summit – not held since the 1991 Gulf war – "if one was feasible".

Mr Assad said Syria is "always ready for any Arab meeting whether between frontline nations or the entire Arab world".

Observer, Page 17

UK steps up veto policy over EU beef ban

Continued from Page 1

ber states, a move strongly backed by Britain.

Mr Clarke, defended the policy of non-cooperation which he said had been forced on Britain by the lack of co-operation from its partners.

At a parallel meeting of EU social affairs ministers, Britain blocked a resolution declaring 1997 to be the EU's year against racism; a recommendation to help women get top jobs; a resolution on the transparency of vocational training certificates; and an agreement to produce annual EU-wide demographic reports. Britain supports in principle all four measures.

A move to reduce value added tax on cut flowers was also vetoed.

Today in Luxembourg, Mr Michael Howard, the home secretary, is expected to block measures to fight crime and terrorism. "This is a way of getting the other member states to appreciate that the beef question is a question of immense importance", he said yesterday.

Supporter of Yeltsin loses city election hit by scandal

By John Thornhill in Moscow

Mr Anatoly Sobchak, mayor of St Petersburg and one of the country's best known liberal politicians, has been voted out of office after a bitterly fought election bristling with allegations of death threats and corruption.

The surprise result in Russia's second biggest city may alarm supporters of President Boris Yeltsin's re-election campaign.

Mr Sobchak, who rose to power alongside Mr Yeltsin as a hero of Russia's democratic revolution of 1991, had strongly identified himself with the incumbent president in what was billed as a rehearsal for the national vote on June 16.

"If the presidential election follows the pattern of the St Petersburg election, I have serious worries about Russia's future," Mr Sobchak said.

Mr Sobchak was defeated by Mr Vladimir Yakovlev, the deputy mayor, who ran a populist campaign promising to improve the city's living standards.

Leading Communist party politicians hailed Mr Yakovlev's victory as a sign that the anti-Communist tide had turned.

But the politically moderate Mr Yakovlev yesterday backed Mr Yeltsin's re-election campaign and acknowledged Mr Sobchak's contribution to the city.

"Mayor Anatoly Sobchak has completed his mission. Five years ago at a difficult moment he supported democratic transformations. Now the work should be different," Mr Yakovlev said.

Preliminary results showed Mr Yakovlev had received 47.5 per cent of the vote on Sunday, compared with 45.8 per cent for Mr Sobchak in a low turnout among the city's 3.8m voters.

Before the first round of voting on May 19, Mr Yakovlev was running at just 9 per cent in the opinion polls – either highlighting their unreliability or the electorate's unpredictability.

The elections for the post of mayor – to be renamed governor – were dogged by press scandals about both candidates.

Last week, Izvestiya newspaper argued that the elections had also become a battleground for the power cliques within the Kremlin. The liberal newspaper reported that Mr Sobchak had been strongly backed by the political and oil and gas industry "clan" headed by Mr Victor Chernomyrdin, the prime minister.

Mr Yakovlev, however, yesterday said his well-financed campaign had been supported by Mr Oleg Soskovets, the hardline first deputy prime minister widely tipped to succeed Mr Chernomyrdin as prime minister in a second Yeltsin administration.

Mr Soskovets is believed to have developed close ties with the directors of the many defence plants in St Petersburg.

Observer, Page 17

THE LEX COLUMN

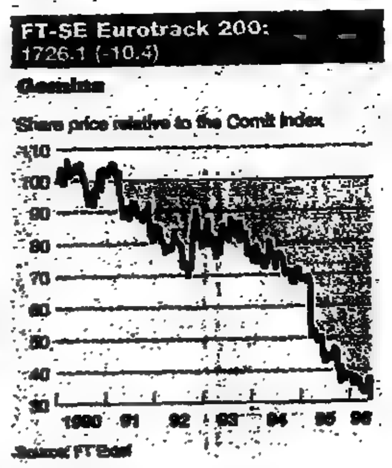
Tarnished gem

Gemina came within inches of becoming one of Europe's largest conglomerates, via a proposed merger with Ferruzzi Finanziaria, but yesterday it showed just how ill-equipped it was for the role. Far from being Super-Gemina, as last year's attempted conglomeration became known, the Italian holding company has demonstrated it was out of its depth even with its existing business portfolio. Last November, a new management team predicted losses of L468bn ($302.5m), after discovering the extent of problems at its publishing and financial services divisions. But the reality was L164bn worse, hence the 9 per cent fall in its shares yesterday.

The good news for shareholders in Ferfin and its associate Montedison is that the Super-Gemina proposals must now be well and truly buried. But the prospects for Gemina's investors are less rosy. True, they have a new management, which may start to rationalise a rag bag of businesses ranging from publishing and financial services to sportswear and paper. And the latest losses were all inherited. But the management has made a poor start. It cannot be blamed for past problems, but it has failed to express any strategy for going forward and gave only the sketchiest of explanations for the group's shocking performance.

Gemina has some extremely attractive investments, such as the Corriere della Sera newspaper and Fila sportswear. However, it has proved its weakness as a conglomerate. Until it can demonstrate some strategic focus and show it its publishing business under control, its shares should not be considered investment-grade.

FT-SE Eurotrack 200: 1726.1 (-10.4)



Source: FT Extel

KHD

Germany's willingness to mount yet another rescue of Klöckner-Humboldt-Deutz is astounding. This is the third refinancing attempt in seven years and this time the engineering group may have lost a massive DM950m ($625m) – nearly three times its shareholders' funds – on dud contracts. Yet everyone is rallying round: from Deutsche Bank and other lenders, which have already lost millions, to the local city and state governments, which seem willing to provide guarantees and improve KHD's liquidity by buying up some of its properties. Even the unions are prepared to contemplate cuts in wages and benefits.

But keeping an uncompetitive business afloat artificially will do little to preserve jobs in the longer term. At the very least, the plant engineering side, which is responsible for the losses and operates from a high cost base in a hopelessly competitive market, should be closed or sold. That might enable the engines division, which has a strong new product range and good technology, to survive. After all, its rival VarityPerkins – whose US parent is merging with Lucas Industries – is going from strength to strength.

BT

So much for the Spottiswoode factor: if nothing else, yesterday's restrained review of British Telecommunications' prices should dispel fears that the gas regulator's recent blitz would start a trend. Of course, for BT to cut residential prices by 4.5 per cent a year in real terms will be no picnic. The new price cap may look more lenient than the current one – annual cuts of 7.5 per cent in real terms – but in practice the lion's share of that has tended to go to the business market. The new, more specific target will simply require BT to continue cutting residential prices at the same rate as, on average, it has for the last three years. This may not be particularly tough, but it is not absurdly soft either.

For the really good news, investors should look to the business and higher-spending residential markets, where BT is to be freed from regulation altogether. This is no licence to print money: just because the regulator is letting go, BT will not suddenly be able to raise prices without severely damaging its market share. What it might be able to do, though, is secure some welcome relief from the vertiginous rate – 9 per cent a year in real terms – at which business prices have dropped in recent years.

In short, it is the withdrawal of regulation that is important in this review: even in the residential market, the regulator says he expects this price review to be the last. BT is unlikely to turn such an attractive offer down. But will its new freedom be enough to spice BT up as an investment? After all, sceptics say, BT will be lucky to deliver medium-term earnings growth much above 5 per cent a year. So at about 12 times this year's earnings, the shares hardly look cheap.

But this assessment ignores two factors: the plentiful scope for enhancing earnings by gearing up the balance sheet once the review is safely over, and the long-term prospects of BT's investments in, for instance, Cellnet and MCI. Take these into account, and the shares still look attractive.

Tesco

Tesco's latest loyalty card innovation looks particularly smart. The superstore chain has reinforced its position as market leader by coming up with a bold new concept: a loyalty/charge card which pays 5 per cent interest on cash balances and charges only 9 per cent on overdrafts. Not only does the new scheme create an impression of superior customer service, it may even boost profits – the evidence from the US is that retailer-branded charge card and credit card customers spend more. Certainly, the worst case scenario seems to be that the scheme will break even and leave customers with a warm, fuzzy feeling about the company – and with an even closer tie to prevent them from returning to a rival.

Furthermore, it is a clever way of achieving a marketing victory in the extremely competitive food retailing market without cutting prices. For this, at least, Tesco's rivals should be grateful, particularly as the petrol price war has already hit profits in the sector. This move should help calm concerns about a potential food price war: despite the competitive environment, UK food retailers are showing a sensible regard for preserving their relatively fat margins.

But of course there had to be a loser. It is less than a month since J. Sainsbury announced its own plan to launch a loyalty card – well behind similar initiatives from Tesco and Safeway. If it turns out to be another conventional loyalty scheme, it will look pretty stale next to Tesco's new plan. All this makes Sainsbury's shares, on a near market rating, look expensive relative to Tesco, trading at a 5 per cent discount to the market.

Additional Lex comment on Yorkshire Water, Page 24

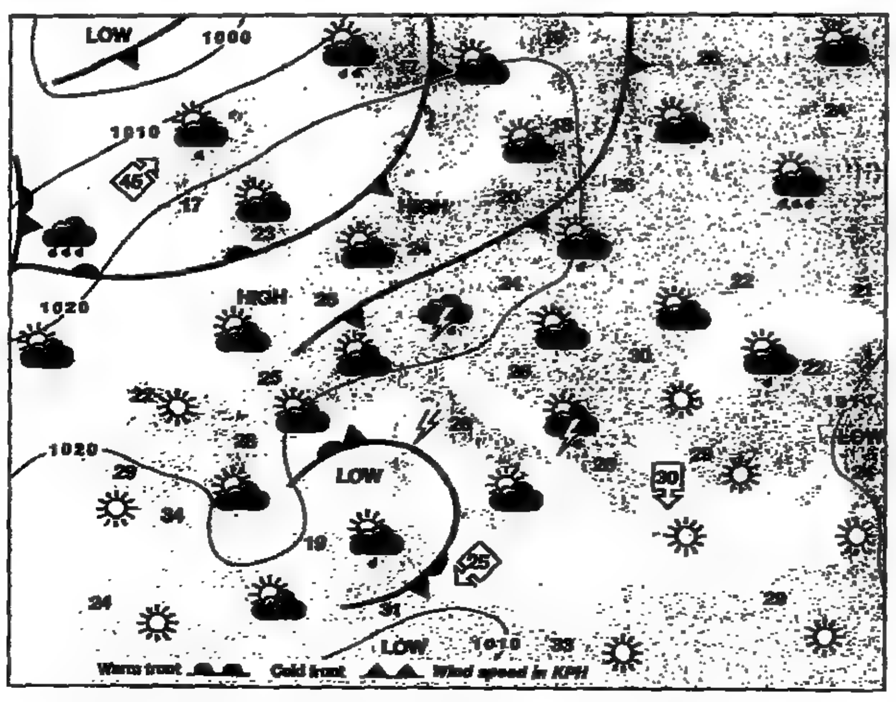
FT WEATHER GUIDE

Europe today

Warm air over southern Europe will slowly spread north. As a result, afternoon temperatures in most of France will exceed 25C while the Benelux will have maximums around 20C. Southern Spain will be mostly sunny with temperatures above 30C in places. The UK and the North Sea countries will have sun interspersed with cloud. The boundary between warm air to the north and slightly cooler air to the south will cause cloud and thunder showers in Corsica, Sardinia, the western Alps and eastern Poland. East of this boundary, very warm and mainly dry conditions will cover most of south-eastern Europe. Isolated thunder showers may develop in the former Yugoslavia and Albania. The eastern Mediterranean will be sunny and dry. Russia will have more cloud with isolated showers.

Five-day forecast

Occasional thunder showers will affect Italy and the Balkan states during the next few days. Most of Europe will be warm but the Benelux, France and Germany will be unusually hot. It will continue warm and sunny in south-eastern Europe but temperatures will fall slightly later in the period.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	fair	29	Caracas	fair	31	Faro	sun	29	Madrid	sun	29	Rangoon	rain	34
	Celsius		Belfast	cloudy	17	Cardiff	fair	19	Frankfurt	fair	25	Majorca	shower	22	Reykjavik	cloudy	10
Abu Dhabi	sun	41	Belgrade	fair	31	Casablanca	sun	24	Geneva	fair	28	Malta	fair	28	Rio	cloudy	25
Accra	fair	30	Berlin	fair	23	Chicago	fair	23	Gibraltar	sun	26	Manchester	fair	20	Rome	fair	26
Algiers	fair	19	Bermuda	fair	24	Cologne	fair	24	Glasgow	shower	16	Manila	shower	35	S. Frsco	sun	27
Amsterdam	fair	20	Bogota	shower	19	Dakar	fair	30	Hamburg	fair	22	Melbourne	fair	16	Seoul	fair	27
Athens	sun	29	Bombay	fair	34	Dallas	fair	32	Helsinki	fair	19	Mexico City	fair	21	Singapore	cloudy	32
Atlanta	fair	27	Brussels	fair	22	Delhi	sun	43	Hong Kong	fair	31	Miami	fair	31	Stockholm	sun	21
B. Aires	fair	16	Budapest	fair	32	Dubai	sun	41	Honolulu	sun	31	Milan	sun	30	Strasbourg	shower	26
B.ham	sun	21	C.hagen	fair	19	Dublin	fair	17	Istanbul	fair	26	Montreal	shower	23	Sydney	sun	19
Bangkok	rain	36	Cairo	sun	29	Dubrovnik	shower	27	Jakarta	fair	32	Moscow	cloudy	26	Tangier	sun	27
Barcelona	fair	22	Cape Town	sun	19	Edinburgh	fair	17	Jersey	fair	20	Munich	thund	24	Tel Aviv	sun	27
									Karachi	sun	36	Nairobi	fair	26	Tokyo	shower	21
									Kuwait	sun	40	Naples	fair	27	Toronto	shower	21
									L. Angeles	fair	25	Nassau	fair	29	Vancouver	shower	18
									Las Palmas	sun	25	New York	fair	25	Venice	sun	27
									Lima	cloudy	18	Nice	shower	25	Vienna	sun	29
									Lisbon	sun	29	Nicosia	sun	29	Warsaw	shower	26
									London	fair	23	Oslo	cloudy	17	Washington	fair	27
									Lux.bourg	fair	24	Paris	sun	26	Wellington	fair	11
									Lyon	fair	25	Perth	fair	22	Winnipeg	cloudy	22
									Madeira	sun	21	Prague	cloudy	24	Zurich	shower	25

FINANCIAL TIMES
COMPANIES & MARKETS

Tuesday June 4 1996

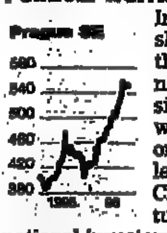
IN BRIEF

ISS shares plunge to two-year low

Shares in ISS, the Danish-based international contract cleaning group, slid to a two-year low of DKr102 as its financial crisis degenerated into a feud between Mr Henrik Slipsager, former US manager, and the present management. Page 21

Gemina slides 9% on news of losses
Shareholders in Gemina, which include some of Italy's largest corporate dynasties, saw the value of their investment tumble almost 9 per cent, following Friday's announcement of heavier-than-expected losses. Page 20

Political worries restrain Prague index



In Prague, blue chip stocks moved sharply lower as investors awaited the outcome of talks on forming a new government after the indecisive general election vote at the weekend. The PX50 index lost 22.9, or 4.1 per cent, to 530.6 as market leaders such as Komerční Banka, CEZ and STP Telecom, which feature in the portfolios of most international investors in the Czech market, all fell. Page 38

Enichem to sell L200bn Montefibre stake
Enichem, the chemicals subsidiary of Eni, Italy's state-controlled oil, gas and chemicals company, is to complete its restructuring with the L200bn ($129m) sale of its majority stake in Montefibre, a quoted Italian manufacturer of synthetic fibres. Page 20

Japan Tobacco hit by planned share sale
Japan Tobacco, the state-owned tobacco company, has set in train plans for the second public offering of shares held by the government. JT's stock price fell Y43,000, or 4.7 per cent, to Y881,000. Page 22

Chung plans new route for Hyundai Motor
After years of steady growth, Hyundai Motor is facing increasing challenges. These pressures may explain the belief of Mr Mong-Gyu Chung, the new chairman, that his group, long regarded as part of one of Korea's most determined and independent-minded *chaebols* (conglomerates), should co-operate more closely with other carmakers. Page 22

Univar board backs $500m Pakhoed bid
Pakhoed, the Dutch oil and chemical storage company, has launched a public offer for all outstanding shares of Univar, the US chemical distribution company in which it holds a 28 per cent stake. The offer, which has been unanimously endorsed by the Univar board, is worth almost $500m. Page 23

Facia's shoe shops go into administration
Shoe shops belonging to the UK's Facia Group were put into administration after accountants KPMG withdrew a High Court challenge to have them placed into receivership along with other parts of the group. Page 24

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Badenwerk	[illegible]	+	7
Didier-Werke	121	+	6
Wella	839	+	16
Falls			
Berliner Kraft	409	-	5
Linde	973	-	7
PWA	199	-	2

NEW YORK ($)			
Rises			
St John Knits	44⅞	+	2½
Southern Union	25⅛	+	1¾
Unisys	15¾	+	6⅛
Falls			
Diana Corp	86¼	-	9½
Nova Corp	35¾	-	2¼
Utd Transnet	23⅛	-	1½

LONDON (Pence)			
Rises			
BT	368½	+	13
Brunel	32½	+	3¼
Optometrics	22	+	5
Tottenham Hot	429	+	51
Falls			
Hambros	98	-	5
Simon Eng	69	-	4

TORONTO (C$)			
Rises			
Biovail Corp	48.75	+	2.25
Ensign Res	11.00	+	1.00
[illegible]	35.00	+	2.40
Falls			
Greenstone	18.10	-	1.75
[illegible]	14.50	-	1.50
Nevsun Res	15.75	-	1.25

PARIS (FFr)			
Rises			
Air Liquide	918	+	18
Peugeot	734	+	14
Falls			
Imetal	793	-	8
Intertechnique	597	-	3
Moulinex	78	-	3
Sfic	740	-	14

TOKYO (Yen)			
Falls			
Akebono Brake	577	-	45
Brother Ind	636	-	26
Godo Shusei	690	-	46
NOK Corp	818	-	47
Nippon Oil	692	-	23
Tsugami	538	-	13

HONG KONG (HK$)			
Rises			
Companion Bdg	1.35	+	0.07
Harbin Power	1.14	+	0.05
Kingboard Chem	1.13	+	0.10
Kunming Mach	1.10	+	0.05
Oxford Prp	18.50	+	2.20
Falls			
Wah Kwong	13.25	-	0.55

BANGKOK (Baht)			
Rises			
Nam Seng Ins	138.00	+	9.00
Thai Stanley	127.00	+	9.00
Thaiwa Ent	35.00	+	3.00
Falls			
Crown Seal	66.00	-	6.00
Intl. Eng	136.00	-	15.00
Thai Fish	57.00	-	[illegible]

New York & Toronto prices at 12.30

Deutsche Babcock sees 'another recession'

German engineering group incurs interim loss as new orders weaken

By Michael Lindemann in Bonn

Deutsche Babcock, the German engineering conglomerate, yesterday reported an unspecified loss in the six months to the end of March and said there were further signs that the German engineering industry was heading for "another recession".

In a letter to shareholders, the group blamed the poor results on the fact that larger new orders had not been booked during the period and on further unspecified restructuring costs. The group's shares closed at DM91.60, down DM2.5.

Analysts described the Deutsche Babcock warning as "very depressing" and said the company was preparing its shareholders for a larger-than-expected loss for the full year ending September. The company in February forecast a loss for 1996 but declined to specify its size.

While Deutsche Babcock suggested its own difficulties reflected those of the industry generally, analysts said the Oberhausen-based group had plenty of homemade problems, mainly because it had done too little to cut costs and had not focused its businesses.

Mr Heyo Schmiedeknecht, chief executive, said in February that non-core businesses worth up to DM1.6bn ($1bn) would be sold off as quickly as possible.

Little has happened since then even though the group admitted in the letter to shareholders that the size of this year's forecast losses, which are expected to be lower than the DM46m shortfall reported last year, depended on how many businesses it managed to dispose of.

The group also said it would concentrate on two activities: plant engineering, which would have a turnover of about DM5bn, and engineering, the second division with sales of about DM1.9bn.

The group's other assorted businesses, most of which are expected to be sold, are grouped under "residual activities" with sales of about DM2.3bn.

Deutsche Babcock said sales in the six months to March 31 had fallen 10 per cent to DM2.95bn while new orders had fallen 5 per cent to DM4.07bn.

Orders at its engineering businesses had "declined continuously" since the middle of last year.

Sales for the full year are expected to reach DM8.5bn, slightly higher than the DM8.3bn reported in 1995, while new orders are forecast to reach between DM8.5bn and DM9bn, compared with DM9.8bn last year.

Mobil shake-up reaches structure at the top

By Christopher Parkes in Los Angeles

Mobil, the leading US energy multinational, yesterday announced a top management shake-out intended to complement the deep-seated operational restructuring under way in the group.

Its present hierarchy, based on three global divisions, will be splintered into 11 business units reporting through a small central management group to a strategic and policymaking "executive office" of four people led by Mr Lucio Noto, group chairman and chief executive.

The break with the global format, typical in oil industry management, was "not driven by cost reduction", Mr Noto said. However, the changes were consistent with reaching the objectives of the group's restructuring programme.

There would be no extraordinary costs or job losses directly associated with the shuffle, which would facilitate further operational changes still in the pipeline, the company said.

Important changes recently introduced at Mobil include a 50:50 joint refining and marketing venture with British Petroleum, in which the groups agreed to pool $5bn of European fuel and lubricant assets.

Last week Mobil struck a deal ceding control of its US and Canadian natural gas marketing to Houston-based PanEnergy, which operates north American gas pipelines. PanEnergy, which has a 60 per cent stake in a new marketing concern, paid $300m for interests including Mobil's stake in 24 gas processing plants.

The benchmark change announced yesterday is the separation into two units of exploration, production and marketing and refining in north America, "where integration provides little value", the company said.

Elsewhere, all oil-based energy interests will remain integrated within four stand-alone regional businesses – each with its own chief operating officer – covering Europe and eastern Europe, Asia/Pacific, South America and Africa and the Middle East.

Two intermediary "business councils" – one each for upstream and downstream interests – are intended to make sure "these guys don't go into their silos" and will oversee promotion of global strategies in the regional businesses.

Worldwide operations, including trading and logistics, chemicals, new exploration projects and liquefied natural gas will also be managed separately but on a global basis. Technology, newly designated as a business group in its own right "to reflect its importance to the corporation", also falls into this category.

Under the new structure, operations which function in a worldwide market, such as shipping and trading, or against global competitors, such as chemicals, are expected to maintain their competitive edge.

Refining and retailing tend to be regional in nature because of the high cost of transporting petrol and other products.

Apart from Mr Noto, top rankers in the new "executive office" are Mr Paul Hoenmans, currently responsible for upstream business; Mr Eugene Renna, the head of downstream operations; and Mr Robert Swanson who has hitherto overseen chemicals, property and technology.

Overall business results will figure among this group's responsibilities which also include executive development, strategy and policy.

The next management tier, responsible for group-wide administrative tasks, including public relations and personnel, will be led by Mr Thomas DeLoach, the chief financial officer.

UK investment bank recruits head of Flemings in London's latest high-profile move

BZW appoints outsider for post of chief executive

By John Gapper, Banking Editor

Mr Bill Harrison, head of investment banking at Flemings, the UK merchant bank, is to take over as chief executive of BZW, the investment banking arm of Barclays. The appointment is the latest in a series of high-profile moves at London financial institutions.

Mr Harrison, 47, was chosen by Barclays ahead of internal candidates who included Mr Donald Brydon, BZW's deputy chief executive. Mr Harrison will succeed Mr David Band, 53, who died in March while on a skiing holiday.

His salary and bonus were not disclosed, although his pay is likely at least to match the £1.9m he is thought to have been paid last year by Flemings. Mr Martin Taylor, Barclays' chief executive, said Mr Harrison's pay would depend on performance. The value of those able to manage large organisations such as investment banks was rising, and "anyone who is shocked now at what such people are being paid had better fasten their seat belts, because this is only the beginning".

It is the highest profile City appointment this year, given Barclays' claim to be the leading British-owned merchant bank. BZW is attempting to compete more strongly with US investment banks such as Goldman Sachs in global markets.

Mr Taylor said Barclays had considered "one or two" senior US bankers for the post, but the "cultural fit" had been one reason for the choice. "Bill is not a default option. He is a brilliant person for the job," said Mr Taylor.

Brendan Corr

Bill Harrison: was approached by BZW in February

Mr Harrison has worked at Flemings for three years, leading a push by the privately-owned merchant bank to compete more strongly in corporate finance work. He is credited with galvanising Flemings into gaining work in mergers and acquisitions. This includes acting as adviser to ING Group, the Dutch bank, when it bought Barings, and Dresdner Bank when it acquired Kleinwort Benson.

Mr Harrison faces a more complex task at BZW, which has a wide range of operations. He is likely to work alongside Mr Brydon, who said yesterday that he was "delighted" by the appointment.

Mr Taylor said BZW had looked outside to fill the post before Mr Band's death because it had was already planning for someone to take over from Mr Band in due course. He spoke to Mr Harrison about this possibility in February.

Mr John Manser, group chief executive of Flemings, said the bank would "continue to build" on its already strong position. Mr Manser will take over as chairman of Flemings' investment banking committee with five executives under him.

Other investment bankers privately expressed surprise at Barclays' choice of Mr Harrison, arguing that he lacked the experience to manage all BZW's operations.

Crédit Foncier investors threaten rebellion

By Andrew Jack in Paris

Minority shareholders in Crédit Foncier de France, the troubled property bank, believe they may have amassed enough voting power to block approval of the group's accounts at its annual general meeting, scheduled for the end of this month.

They have written to the group's auditors expressing concerns at the large losses reported in the provisional 1995 accounts released at the end of April, and have asked them to explain the reasons for sharp changes in accounting practices.

Ms Colette Neuville, head of Adam, the French association for the defence of minority shareholders which is acting for investors in the group, said she had proxies for more than 6m shares, which based on attendance at the last few AGMs would be sufficient to achieve a one-third blocking minority.

Her action, following losses unveiled by Crédit Foncier's new management at the end of April of FFr10.8bn ($2.1bn), is designed partly to put pressure on the French government to become more active in restructuring the bank.

She has written to Mazars, Crédit Foncier's auditors, asking it to explain to shareholders why, so shortly after valuations at significant levels for the group's assets, there was justification for provisions of FFr13.6bn.

Separately, CFF employees have become increasingly vocal ahead of planned redundancy measures proposed to reduce operating costs at the bank.

A large group even rented a boat to protest outside the headquarters of the ministry of finance and economics in Paris, which sits on the banks of the River Seine.

In answer to a question in the French National Assembly, Mr Jean Arthuis, the economics and finance minister, pledged that public prosecutors would be examining the management of the bank to consider any possible legal action that could be taken against past directors.

Although the French government no longer holds any shares in CFF, it sits on the group's board and has the power to nominate the chairman or "governor".

Earlier this year, it exercised this power to fire the incumbent governor as the indications of the group's worsening financial situation emerged.

Dalgety warns as BSE and cat disease hit profits

By Roderick Oram, Consumer Industries Editor

Dalgety, the food processor, yesterday made the first BSE-related profits warning by a large UK public company since the European Union banned exports of British beef in late March. A neurological disease in Dutch cats has also hit its profits.

It said the impact of the two diseases on three divisions - food ingredients, petfoods and animal feeds - would be up to £25m ($38m) in the financial year to June 30.

Dalgety's shares closed up 1p at 375p because the City was relieved it had quantified the damage. Analysts who had shaved their forecasts over recent months knocked an additional £10m-£15m off yesterday.

The City of London is now expecting pre-tax profits of about £110m before big exceptional costs for merging the Quaker petfoods business bought last year.

Other UK food processors such as Hillsdown Holdings, Northern Foods and Unigate have said the impact of bovine spongiform encephalopathy on them is limited and often offset by factors such as a rise in the sale of other meats. Abattoirs have been hit but many of them are owned by private or foreign rather than public UK companies.

Of Dalgety's £25m profit shortfall, about £5m covers problems at its Dutch pet food plant. It said "circumstantial evidence" had linked dry cat food produced there to polyneurothapy, a neurological disease in Dutch cats. "We have not yet identified the cause," said Mr Richard Clothier, chief executive.

Richard Clothier: £25m shortfall

The small amount of the product exported went to continental neighbours, the company said.

It has written off Dutch stock and re-sourced the product abroad. Most is sold under the Tom Poes brand, a small quantity as Felix, one of Dalgety's largest brands, and the rest through retailers' own brands.

"Sales will take some time to recover," Mr Clothier said, but he stressed that they were a small part of its Dutch turnover.

The biggest BSE impact on Dalgety is in petfoods which contain beef products. Most of the profit shortfall comes from a one-off write down of stock and the rest from the on-going fall in sales.

In addition, sales of food ingredients such as seasonings have fallen because of reduced consumption of hamburgers and sausages. But sales of other ingredients such as fish coatings are up.

The smallest impact is on animal feeds. Sales to cattle farmers have halved but they account for only 5 per cent of total feed sales.

Gemina shares fall 9% on news of losses

By Andrew Hill in Milan

Shareholders in Gemina, which include some of Italy's largest corporate dynasties, saw the value of their investment tumble almost 9 per cent yesterday, following last Friday's announcement of heavier than expected losses.

Minority shareholders in the Italian investment company, including small savers and fund managers, are planning to press for further information ahead of the annual meeting on June 28 or 29. The meeting will be their first opportunity to quiz the board since the collapse of last year's ill-fated attempt to merge Gemina with Ferruzzi Finanziaria (Ferfin), the holding company.

On Friday, well after the markets had closed, Gemina reported a net consolidated loss of L632bn ($408.29m) for 1995, compared with the group's November forecast of a net loss of L468bn, and the 1994 loss of L261.6bn.

The company's shares fell 3 per cent on Friday after RCS, the group's publishing and media subsidiary, revealed that it had lost more than expected. It reported a deficit of L729bn, some L140bn worse than forecast, due to heavier restructuring costs and delays in completing a magazine alliance with Burda of Germany. Yesterday, Gemina's shares fell by L61 to L635.

Gemina had to exclude its wholly-owned finance company Gemina Capital Markets from the consolidated results because the Swiss authorities blocked the transfer to Italy of information about certain Swiss subsidiaries on legal grounds.

Gemina is one of Italy's 30 largest quoted companies and is controlled by a shareholder pact headed by Fiat, the automotive and industrial group, Mediobanca, the Milan merchant bank, Pirelli & C, parent company of the tyre and cable manufacturer, and Generali, Italy's largest insurer.

In September, the pact backed the "SuperGemina" plan to merge with Ferfin, which controls the Montedison industrial holding company. The plan was shelved and the board reshuffled six weeks later, after further losses emerged at RCS and magistrates put 10 executives and former executives of the group under investigation for alleged falsification of accounts.

Assorisparmio, an association of small shareholders, yesterday urged the new board to supply investors with the outline balance sheet for 1995 well ahead of the annual meeting.

The association is planning action against former executives, but Mr Adamo Gentile, Assorisparmio's president, said yesterday: "We don't want to declare war on this board."

Gemina, which said it had detected signs of a recovery in the first months of 1996, said it finished 1995 with net cash of L914bn, following last spring's L1,525bn rights issue.

Lex, Page 18

Enichem to sell L200bn stake in Montefibre

By Andrew Hill

Enichem, the chemicals subsidiary of Eni, Italy's state-controlled oil, gas and chemicals company, is to complete its restructuring with the L200bn ($129m) sale of its majority stake in Montefibre, a quoted Italian manufacturer of synthetic fibres.

The sale – through a public offer of the ordinary and savings shares owned by the Eni group – will reduce Enichem's debt by a further L160bn.

At the same time, Finlane, a family-owned Italian textile and engineering group, is considering a public offer of about 45 per cent of Montefibre at L1,200 per ordinary share, compared with Montefibre's current market price of L1,160.

Enichem and its sister companies, Chemfin and Sofid, are to sell 66.4 per cent of Montefibre's ordinary shares and 46.5 per cent of its savings shares through an offer to existing Montefibre shareholders, an institutional placing and a public offer next month. The group will offer ordinary shares with warrants, convertible into savings shares, at L1,100 each.

Finlane said its offer was subject to approval by Consob, the Italian financial markets watchdog, and to a two or three-week examination of Montefibre's factories by Orlandi and Sant'Andrea Novara, the two Finlane companies which will carry out the bid.

The restructuring of Enichem has been the most difficult part of the general reorganisation of Eni set in motion by Mr Franco Bernabè, the group's chief executive.

Franco Bernabè: initiated reorganisation of Eni

Three years ago, many analysts thought Eni would have to be privatised without Enichem, which lost L2,669bn in 1993.

Following painful cuts and disposals of non-core businesses, which halved the workforce to 16,000, it made a net profit of L1,063bn in 1995, easing the partial sale of the treasury's 100 per cent stake in Eni last autumn.

The combination of L3,500bn of disposals and a L8,000bn recapitalisation by Eni had cut Enichem's net debt to L1,735bn by end-1995, compared with L8,356bn at the end of 1993.

The restructuring, piloted by Mr Marcello Colitti, Enichem's chairman, has also concentrated the group on its core businesses of base chemicals and plastics.

Montefibre employs 2,600 people, mostly in Italy, and last year reported a net profit of L42bn, on turnover of L1,302bn. The Finlane group employs 1,700 people and has sales of L462bn, 44 per cent outside Italy.

Banque Paribas and Mediobanca, the Milan-based merchant bank, have been advising Eni on the Montefibre transaction.

Bank Handlowy seeks listing as it heads for record

By Christopher Bobinski in Warsaw

Poland's state-owned Bank Handlowy wants to see a start made next year on its privatisation with a listing on the Warsaw Stock Exchange, Mr Cezary Stypulkowski, the bank's chief executive, said yesterday.

"Foreign investors will be included in the process but decisions have yet to be taken on whether they should be portfolio investors or or a strategic partner," he said, adding that "the interests of our 125-year old bank should be paramount in determining that choice".

"A change in our status is essential," Mr Stypulkowski continued, "as the Handlowy has to have access to funding which a listing on the stock exchange would facilitate."

Mr Stypulkowski's remarks came with the publication of last year's results showing a 420.6m zloty ($162m) net profit. Of this, about 80 per cent is to be used to raise the bank's capital to 1.8bn zlotys, making BH the largest of Poland's banks.

The first five months of this year have seen BH's net profit rise to 275m zlotys, suggesting the bank is set to report record results for 1996.

Mr Stypulkowski said yesterday that BH appeared now to have to been excluded from the government's controversial bank consolidation programme.

Under this scheme, BH would have been bundled up with a state-owned regional bank in Szczecin and handed the treasury's 47 per cent stake in the listed Bank Przemyslowo Handlowy in Krakow.

But after months of debate, the government now appears to see the state-owned PKO SA bank acting as a leader for a financial group made up of three regional banks in Lodz, Szczecin and Lublin, while the treasury's stake in BPH would be sold to private investors. This would mollify the European Bank for Reconstruction and Development, and ING, the Dutch financial group, which own minority stakes in the BPH and have protested at plans to link that bank to BH.

Meanwhile, the state-owned Powszechny Bank Kredytowy, which is to be privatised later this year, is positioning itself at the centre of a new banking group.

PBK's plans included the purchase of stake worth 33m zlotys in the listed Kredyt Bank, giving it a 21.5 per cent share of Kredyt's equity. PBK has also signalled plans to purchase a 30 per cent share in the Polish Development Bank, which is also listed on the Warsaw Stock Exchange.

Postbank earnings quadrupled to DM226m

By Michael Lindemann in Bonn

Postbank, the German postal savings bank which is trying to fight off a hostile bid from Deutsche Post, the federal postal service, reported that 1995 net profits rose fourfold, from DM51m in 1994 to DM226m ($148m).

Mr Günter Schneider, chief executive, said he expected the bank, which is due to be listed on the stock exchange in 1998, to be able to repeat the results this year, despite the "more difficult environment" caused by lower interest rates.

The main problems, Mr Schneider said, were caused by a 4.6 per cent drop in net interest received to DM3.15bn. Net commissions also slipped, by 3.6 per cent to DM910m, as customers preferred to do their banking by telephone.

However, despite the lower interest rates, Mr Schneider said he was confident that Postbank – which is still 100 per cent state-owned and 80 per cent of whose employees are civil servants – would be able to improve its efficiency enough to report similar profits this year.

He said the bank also expected to be able to improve the profitability of its own-account trading, where earnings in 1995 were almost doubled to DM45m.

Deutsche Post launched a hostile takeover for Postbank last September, aided by Deutsche Bank and Swiss Re, the reinsurance group. Yesterday, Mr Schneider said the difficult talks with Deutsche Post, mediated by the London investment bank Schroders, were nearing a successful conclusion.

"We are no longer discussing [that Deutsche Post] takes a majority stake in Postbank," he said.

"Now we are talking about a stake which would be below 25 per cent, and I think that is a discussion which is tending in the right direction.

"One thing has to be clear – Postbank is not there, and does not want to be there, just to clean up the balance sheets of other companies."

NEWS DIGEST

UK insurers may buy Argentaria business

The merged UK group being formed by Royal Insurance and Sun Alliance might be a possible purchaser of the general insurance arm in Spain of Hércules Hispano, according to the unit's parent company, the Argentaria banking group.

Argentaria signalled earlier this year it no longer considered general insurance a core business. The banking group indicated yesterday negotiations had taken place with Royal Insurance or Sun Alliance about a deal possibly worth more than £80m ($122.8m). It said it was also in contact with other potential buyers. Neither Royal nor Sun Alliance would comment on "speculation". It is unlikely any deal would be agreed before their merger is completed, expected next month. However, they have indicated they would be looking for continental European expansion. Both have Spanish operations. *Tom Burns, Madrid and Ralph Atkins, London*

Mediaset flotation held up

Consob, the Italian financial markets watchdog, will not be able to approve the flotation prospectus of Mediaset, Mr Silvio Berlusconi's media company, until near the end of the week. Consob officials said Mr Enzo Berlanda, the Consob president heavily involved in the process, would be out of Italy until late on Wednesday. Mediaset had originally planned to begin its investment roadshow on Wednesday or Thursday. Italian newspapers at the weekend cited Consob sources saying the judicial investigations into Fininvest, Mediaset's majority shareholder, would not present obstacles to the prospectus' approval. *Andrew Hill, Milan*

AGF employee tranche taken up

The tranche of shares reserved for employees of Assurances Générales de France, the insurance group being privatised, was near-fully subscribed, according to preliminary estimates. The 6.2m shares allocated to staff at a discount to the public offer price were just about taken up.

Government figures over the weekend indicated that more than 850,000 individuals had demanded shares, at FFr128 each, in the retail tranche of the privatisation. This was twice the number predicted by some internal estimates and more than three times the number allotted. The order value was FFr6.7bn ($1.3bn). The institutional tranche was over-subscribed more than six times. The privatisation should net FFr8.5bn –FFr9.3bn for the state. *Andrew Jack, Paris*

Bosch deputy chairman dies

Mr Friedrich Schiefer, deputy chairman of Robert Bosch, the German automotive components and engineering company, has died, aged 57. A former executive at McKinsey, the management consultancy, he joined the Allianz insurance concern in 1984, moving to Bosch eight years later.

He was set to succeed the late Wolfgang Schieren as chairman of Allianz, Europe's biggest insurance group, in October 1991. But the company announced three months before the proposed handover that Mr Schiefer, then finance director, was leaving. Personal reasons were cited, but there was speculation that policy disagreements – partly related to Allianz's costly expansion in the US and eastern Germany – played a part. The assertive Mr Schiefer may also have ruffled feathers by backing Italy's Pirelli in its controversial attempt to acquire Continental, the German tyremaker. He was then a member of Continental's supervisory board.

Mr Schiefer was born in Leverkusen and studied management and economics. He joined Bosch in 1992 and ran the US operation before becoming deputy chairman in July 1993. *Andrew Fisher, Frankfurt*

Deutsche Telekom turns its talent to global networking

Problems at home seem smaller as the group makes inroads to foreign markets

Deutsche Telekom: worldwide strategy

	Asia					Eastern Europe						Western Europe		Worldwide
	Indonesia	Malaysia	Philippines*	Thailand*	Kazakhstan*	Russia	Ukraine	Hungary	Austria	Poland	Czech Republic	Switzerland	Netherlands	
Company	Satelindo	Technology Resource Industries (TRI)	Islacom/Asia Communications Philippines	Shinawatra	Kazakhtelecom	Mobile Telesystems	Utel	Matav	Ö-call	Polska Telefonia Cyfrowa (PCT)	Radio Mobil	Modacom	Call Max	ICO (formerly Inmarsat)
Area of business	mobile phones satellite communications	fixed network	fixed network mobile and paging	fixed network mobile and paging	fixed network	mobile and paging	Long distance telephone and international switching	Full telecoms services	mobile phone network	mobile phone network	mobile phone network	mobile data communications	paging services	mobile satellite communications
Deutsche Telekom Holding	25%	21%	35%	[illegible]	49%	49%	19.5%	67%	25%	25%	41.4%	61%	40%	7.4%

* deal being negotiated ** Held together with Ameritech through MagyarCom, a joint venture between the two companies

Source: Deutsche Telekom

When Mr Ron Sommer and his seven colleagues on the Deutsche Telekom management board reveal 1995 results today, they will have a hard job explaining the company's poor service and high tariffs.

One thing they can be quietly pleased about, though, is the way Deutsche Telekom – due to be partially privatised in November – has managed to launch itself on to the international stage.

The achievement is all the more remarkable, analysts point out, because 18 months ago the state-owned behemoth was forbidden under the German constitution to own telecoms businesses outside Germany. "Having been a non-runner a few years ago, Deutsche Telekom is catching up very well indeed," a leading London-based telecoms analyst says.

Catching up – or better, positioning Deutsche Telekom well at a time when further changes are expected among the global telecoms operators – is now the job of Mr Jan Erik Nederkoorn, a 53-year-old Dutchman. He briefly ran Fokker, the regional aircraft maker now on the brink of bankruptcy.

Mr Nederkoorn is battling on two fronts. On one side, Deutsche Telekom has a stake in Global One, the three-way venture with France Télécom and Sprint, the US telecoms group. The alliance is designed to provide one-stop shopping for companies needing international telecoms services.

Global One, Mr Nederkoorn admits, is "an important part of our international strategy". In the same breath, though, he points out that "the three parent companies have their own independent policies" when it comes to international activities. Mobile phone services and fixed network projects in specific countries, he says, are examples of the sort of business that Deutsche Telekom is developing on its own.

While other management board members are fighting to improve Deutsche Telekom's pitiful reputation in Germany, Mr Nederkoorn at least has the advantage of dealing with companies outside Germany who hold the Germans in high regard, in part because of their experience in re-wiring the whole of eastern Germany, a mammoth operation costing DM50bn ($32.6bn).

"Many want to be our partners," he says. "Before you know it, you're looking at 200 different projects."

That, he admits, is a task which even Deutsche Telekom – with its 210,000 employees and apparently limitless amounts of cash – cannot cope with.

In an effort to focus the activities, Mr Nederkoorn's team has drawn up a "hit list" of 20 countries where Deutsche Telekom wants to play a role.

The affable Dutchman will not specify where Deutsche Telekom is concentrating its resources, but clearly Asia has become important, not least because, as Mr Nederkoorn points out, the region is expected to account for 35 per cent of world GNP in 2010.

Deutsche Telekom recently bought into Technology Resources Industries, a Malaysian-based operator, and there is speculation it is about to do a deal with Shinawatra of Thailand and Asia Communications Philippines.

While Deutsche Telekom generally prefers majority stakes, it is prepared to take on smaller ones as at TRI where, Mr Nederkoorn says, the contracts have been designed to ensure that the Germans have "management influence".

The other two Asian deals may be more attractive because Shinawatra and Asia Communications Philippines are already linked, giving Deutsche Telekom a stake in what is already shaping up as a regional alliance.

Furthermore, Global One is still looking for at least two partners to consolidate business in Asia. While there has been speculation that the alliance would want to get a Japanese partner on board, Mr Nederkoorn is quick to point out that this alone is not enough to bridge the region's "different cultures".

Elsewhere, Deutsche Telekom has moved quickly to win deals in eastern Europe where mobile telecoms is especially attractive because of the poor state of the fixed networks.

Analysts, meanwhile, suggest that Global One must follow the way of the US regional operators – the so-called Baby Bells. The US companies have struck a number of alliances in recent months and expanded into services directed more at private customers – phone charge cards, entertainment services, the re-sale of mobile services – in part because services from corporate clients alone are not sufficiently profitable.

Mr Nederkoorn baulks at the idea that Global One may follow suit. "Global One will be supplying seamless services to business clients, consumers and carriers. That's it," he says.

Whether Global One is going to be content with doing just that remains to be seen. Clearly, Deutsche Telekom's concern is to fit as many strings to its bow as it can ahead of another bout of consolidation in the international telecoms market. In the words of one analyst: "The bigger its portfolio is, the more attractive it becomes."

Michael Lindemann

Henkel chairman upbeat

Mr Hans-Dietrich Winkhaus, chairman of Henkel, said yesterday the German chemicals group expected to achieve double-digit sales growth in 1996, AFX reports from Düsseldorf. However, he warned that earnings growth would be slower because of the costs of buying Schwarzkopf, the hair products company.

"The outlook for the whole of 1996 is generally positive for Henkel," Mr Winkhaus told shareholders at the annual meeting.

The company expected economic growth to remain moderate. "There has been a delay in the expected upturn in private consumption in western Europe," he said. US markets were stabilising and the Japanese market was recovering slowly, while growth in the other markets in south-east Asia was continuing apace, Mr Winkhaus said.

In the first four months of the current year, sales grew 12 per cent to DM5.28bn ($3.4bn), largely as a result of the acquisition of Schwarzkopf from Hoechst. Pre-tax profits rose 4 per cent to DM254m, and net profits developed even better, said Mr Winkhaus. In 1995, Henkel's profits were DM488m; pre-tax they were DM780m, on sales of DM14.2bn.

ISS shares dive to two-year low as crisis deepens

By Hilary Barnes in Copenhagen

Shares in ISS, the Danish-based international contract cleaning group, slid to a two-year low yesterday as its financial crisis degenerated into a a feud between Mr Henrik Slipsager, former US manager, and the present management.

Waldemar Schmidt: promotion marked start of overhaul

At the close in Copenhagen the shares were at DKr102, down DKr13 on the day and 38 per cent below last Wednesday's close of DKr164. On Thursday, ISS announced it would take extraordinary charges of $100m in 1996 to increase provisions for insurance liabilities at ISS Inc in New York, and to cover bookkeeping irregularities there over the past five or six years.

The irregularities, allege ISS, have artificially inflated profits. It says it will take legal action against those found responsible.

Meanwhile, the Copenhagen stock exchange has asked the Finance Industry Supervisory Authority to investigate insider trading connected with a put option placed shortly before the ISS statement on Thursday.

The statement, which said the extra provisions were required to cover problems in New York going back several years, has drawn attention to the possible role of Mr Slipsager, who resigned in 1994, and other members of the former ISS management team.

Management underwent sweeping changes last autumn when Mr Waldemar Schmidt, former manager for the Europe division, succeeded Mr Poul Andreassen as chief executive.

Mr Slipsager leapt to his own defence yesterday in a five-page statement to the media.

ISS said it would make extra provisions of $40m to meet potential liabilities under its self-insurance programme, used primarily to meet accident damage claims from employees. Mr Slipsager said the provisions were always [illegible] and approved by the [illegible] board and its US [illegible] while he was in charge in New York.

ISS said it would also take a charge of $30m to cover balance sheet irregularities which have inflated profits, and another $30m to cover possible further irregularities.

Mr Slipsager claimed he had information that the actual value of irregularities exposed so far was "closer to $5m than $30m". While irregulaties could not be defended or excused, "they should not be used as a dumping ground for other problems" or "to wash off the management's failure to achieve its targets on to me".

ISS refused to comment yesterday.

COMPANIES AND FINANCE: ASIA-PACIFIC/INTERNATIONAL

Japan Tobacco shares hit by offer plans

By Emiko Terazono in Tokyo

Japan Tobacco, Japan's state-owned tobacco company, has set in train plans for a second public offering of shares held by the government, sparking fears of oversupply on the Tokyo stock market.

JT shares plunged Y43,000, or 4.7 per cent, to Y881,000 as the company submitted a report to the finance ministry. A total of 272,390 shares, left unsold in JT's initial share offering at the time of its listing in 1994, are scheduled to be offered this month. The sale would leave the government with two-thirds of the company.

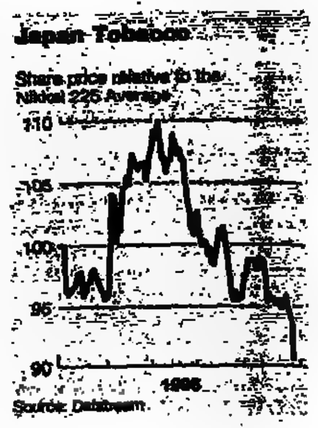
The JT offering is the first of several government sell-offs planned for this year. The finance ministry has been forced to postpone its share-offering plans, including JT's, due to the sluggish Tokyo stock market of the past few years. But with the Nikkei at a four-year high, ministry officials will try to increase government revenues at a time of faltering tax income.

The ministry also wants to sell 500,000 of its 10.4m shares of Nippon Telegraph and Telephone, which was listed in 1987. The transport ministry is looking at offering shares in West Japan Railway, the second largest of the seven regional companies created when Japan National Railways was broken up in 1987.

However, investors are concerned over the government's recent record on share offerings. The sale of East Japan Railway shares in October 1993 triggered a sharp fall in the Tokyo stock market. The JT listing, in which 666,666 shares, or one-third of the government's stake, were sold off the following year, was no different, and 40 per cent of the initial offering was left unsold.

In spite of yesterday's jitters among investors, the government hopes that the JT offering will not have a negative impact on the market.

It will use the book-building method to assess demand for the shares, rather than determining the offer price through a preliminary bid, which has tended to boost the share price. Nomura Securities and the London arm of Goldman Sachs are lead underwriters, and are scheduled to start assessments next week.



Chung plans new route for Hyundai Motor

Mong-Gyu Chung, the new chairman of Hyundai Motor, will be able to combine the cerebral with the commercial when he visits the UK in a few weeks.

The Oxford-educated head of South Korea's biggest carmaker will be belatedly visiting his alma mater to collect his master of arts degree. A day later, he will swap dons for directors when he rubs shoulders with motor industry executives at the British Grand Prix.

The Silverstone meeting should give Mr Chung, one of the youngest heads of a big subsidiary of a Korean *chaebol* (conglomerate), his first opportunity to assess his counterparts. Such contacts could be useful given Mr Chung's view that Hyundai, long regarded as one of Korea's most determined and independent-minded *chaebols*, should co-operate more with other carmakers.

In an interview, he indicated that recent talks with Peugeot of France about buying diesel engines marked a first sign of Hyundai's new attitude. The company retains close links with Mitsubishi of Japan, which has provided some carmaking technology, but he says "we'd also like to talk more to others".

One reason for the change of heart may lie in the new challenges facing Hyundai after years of steady growth. Like Korea's other carmakers, Hyundai is being squeezed between upstart, lower-cost, Asian rivals and higher-technology competitors from Japan, Europe and the US.

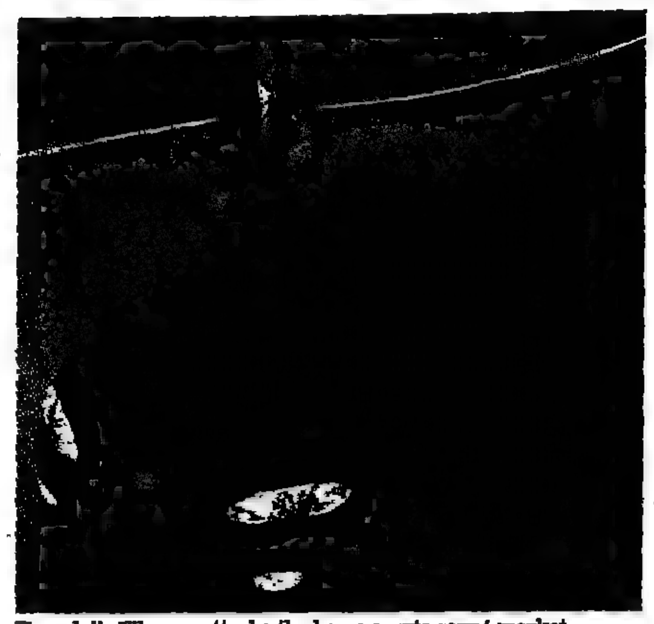
Korea's cost advantages have been eroded by relatively high inflation. Consumer prices have risen five times faster than in Japan in the past five years, and more than twice as fast as in the US. That has translated into inflation-busting wage deals, which have taken average pay packets for line workers in the motor industry to $2,000 a month before tax. Matters have recently been exacerbated because the lower yen has restored some of Japan's lost competitiveness.

Moreover, the buoyant domestic car market that has fuelled Hyundai's expansion may be slipping. This year's forecast growth in gross national product of 7.5 per cent sounds high, but it is a sharp fall from the double-digit rises of the early 1990s. Economists are hoping the government can engineer a "soft landing" to prevent demand for consumer goods, like cars, collapsing.

Matters will be aggravated in early 1998, when production starts at Samsung Motors, the new automotive subsidiary of the powerful electronics and trading group. "Samsung is what they're afraid of," one local analyst says. "It has the best management and the deepest pockets of any *chaebol*, thanks to earnings from electronics and semiconductors".

Samsung's debut will seriously challenge Hyundai in the domestic market. Until now, Hyundai has managed to maintain a market share of almost 50 per cent, in spite of incursions by Kia, Daewoo and Ssangyong, its smaller rivals.

Samsung, however, is in a different league. Backed by Nissan technology, it expects to build about 80,000 mid-sized cars in its first year. Output should soar thereafter as part of a $16bn investment plan to make the company one of the world's leading carmakers by 2010.


Hyundai's Tiburon attacks the home sports coupé market

Mr Chung believes Hyundai can retain its market share. Behind the official facade, however, analysts say the company expects its long-term market penetration to fall to a minimum of 35 per cent and probably more like 40 per cent.

Hyundai's defence is based on extending its range beyond its current four main models and improving quality. A slinky new coupé, the Tiburon, which is the first Korean-built sports coupé to be sold at home, has just gone on sale.

The Tiburon will break the monotony of a market dominated by bland sedans. Until now, Korea's four carmakers have had little incentive to expand their ranges because domestic demand has been buoyant and imports have been kept at bay by protectionist barriers. Japanese vehicles, for example, are banned in Korea.

But as Korean drivers become more demanding and imports make more of an impact, Hyundai will have to alter its strategy of building large volumes of relatively limited ranges. Mr Chung says the company is working on innovations. A sub-compact minicar will appear in late 1997, followed by a multi-purpose vehicle (people carrier) in 1999. "We have to introduce more variety in the domestic market", he says. Improving quality is the other tactic. "Quality at the moment is the biggest issue for us."

Mr Chung argues the styling of Hyundai cars has improved immeasurably. But he admits work is still required on engines, transmissions and chassis to produce "world class" cars. The company is boosting spending on research and development to improve noise, vibration and harshness in recognition of the problems.

Broadening the range and improving quality should also help Hyundai abroad. The new mini-car, for example, forms a significant part of the company's strategy to break into India. Mr Chung hopes to start producing the mini-vehicle and a larger counterpart near Madras by the second half of 1998. The smaller vehicle "will be a direct competitor" to the Maruti, India's best-selling car, he predicts.

Better quality should also help Hyundai avoid the mistakes of the late 1980s, when its booming US sales collapsed as customers found their cars enjoyed less-than-Japanese reliability. Although North American sales have returned to a stable 130,000 units a year, that is less than half their 1987-88 peak.

"At that time, we were overconfident", Mr Chung says. Perhaps a dash of humility, alongside Hyundai's legendary drive and determination, is the most important quality the new chairman can provide.

Haig Simonian

Philippine National Bank goes private

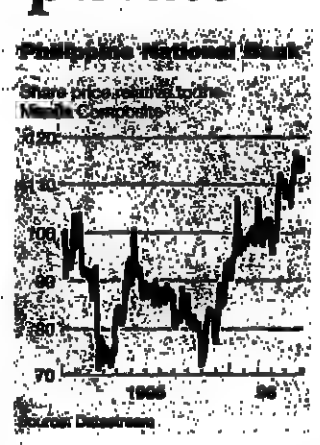
By Edward Luce in Manila

The Philippine National Bank, the country's largest in terms of assets, was yesterday incorporated as a private bank, six months after the government reduced its share to below 50 per cent.

PNB officials said the change, made official yesterday by Manila's Securities and Exchange Commission, cleared the way for a thorough reorganisation.

The bank, whose shares closed steady yesterday at 460 pesos – almost double the value last December, when the government became a minority shareholder – intends to more than double its authorised capital stock to 25bn pesos ($954.6m) at its first private shareholders' meeting on July 16. It will also increase the board from nine to 11 directors.

With the Philippine banking sector growing by 30 per cent a year, PNB, which posted net profits of 2.1bn pesos in 1995, says it will move swiftly to revamp the former state-owned institution into a lean private sector bank. Its 8,000-strong payroll – roughly double the workforce of Metrobank, the largest Philippine bank in terms of market capitalisation – is expected to be cut to about 6,000 within two years.



"Yesterday's change of status will have far-reaching consequences for PNB, not least by putting it on a level playing field with its major competitors," said Ms Meluchi Adriano, an analyst at ING Barings in Manila.

The change of status will allow PNB to divest non-performing assets, including its former headquarters in the business district which has a market value of around 2bn pesos. The scrapping of government requirements will enable the bank to move more aggressively into the rapidly expanding consumer loan market.

With a price-to-book value of under two (considered a more effective measure of a bank's share value than the p/e ratio), PNB is considered a good growth prospect in relation to other large banks. Metrobank's price-to-book value is almost four.

KLSE sets rules on short selling

By James Kynge in Kuala Lumpur

Malaysia yesterday announced its first regulatory framework governing the short selling of shares. The move is part of a broader programme to add depth and sophistication to the country's booming financial markets.

The rules will restrict short selling to shares in about 30 of the "bluest of blue chip" companies listed on the Kuala Lumpur Stock Exchange, said Mr Khairil Anuar Abdullah, a director of the Securities Commission.

Such selling occurs in Malaysia but it is not regulated. Officials said the KLSE may be ready to implement the new rules from August or September, paving the way for call and put options trading on the Kuala Lumpur Options and Financial Futures Exchange (Kloffe).

Kloffe, Malaysia's first financial futures exchange, was launched in November 1995 but has seen only modest volumes. Call and put options trade would boost its fortunes, securities analysts said.

The Securities Commission has ruled that short selling may occur only in the most liquid of shares. The average monthly share volume has to be more than 2m; registered shareholders must number more than 2,000 and the company must have at least 100m shares in a public float.

To ensure a high degree of transparency, brokers must report new short positions by 6pm on the day after they were taken and the KLSE must make public all short positions within two days. If the KLSE feels the short interest in the market has reached an "undesirable" level, it may suspend short selling activities.

Cool global response to NZ bond buy-back

By Richard Adams

New Zealand's offer to buy back $500m of yankee notes and £195.5m of loan stock met a muted response from overseas investors, as political uncertainty provoked a "wait and see" attitude.

Mr Brian Farrell, a bond manager with J.P. Morgan, said he had not received many enquiries following the offer yesterday, saying the market was quiet because of the political situation ahead of elections due in October.

"The offer sounds quite reasonable, but there's more concern if [New Zealand First party leader] Mr Winston Peters gets into a position of power. This [offer] may add some degree of stability to the market."

The New Zealand Debt Management Office is offering a repurchase price of yield to maturity plus fixed spreads ranging from 0.35 per cent to 0.10 per cent on the yankee notes, and 0.15 per cent for the sterling bonds.

Morgan Stanley will be exclusive dealer manager for the yankee notes, and BZW will act as exclusive agent for the loan stock.

The buy-back will remain open until June 14 for the sterling bonds, and June 26 for the yankee notes.

Univar board backs $500m bid from Dutch group

By David Brown in Amsterdam

Pakhoed, the Dutch oil and chemical storage company, has launched a public offer for all outstanding shares of Univar Corporation, the US chemical distribution company in which it holds a 28 per cent stake.

In a cash offer unanimously endorsed by the Univar board, Pakhoed proposes to buy the outstanding 25.6m shares for $19.45 each – which values the bid at almost $500m. Univar shares were trading at $19⅞, up $6¾, in mid-session yesterday.

Pakhoed said it had already agreed to acquire 5.1m shares held by Dow Chemical of the US and others, which would bring its total stake to 51 per cent. Pakhoed valued the remaining shares at Fl 520m ($304m).

Univar is a market leader in the North American chemical distribution market, with a turnover of $2bn, and an important group in the UK, Scandinavia and Switzerland. By integrating Univar's operations with those of Lambert Riviere, a French company it acquired in 1995, Pakhoed said it would become the second-largest chemicals distribution group in Europe. It has a presence in France, Italy, Spain, and Portugal.

The deal is to be financed by existing liquidity, bank credit lines, and a tranche of preference shares to be issued in the second half of this year. Mr Klaas Westerdijk, Pakhoed chairman, said it was an important step in the company's strategy to become a leading global contender.

"We are laying a strong base for further profit growth of Pakhoed in the future." Mr Westerdijk said. However, in the short term, the acquisition will be accompanied by a reorganisation to include Univar's US operations. Other measures will include a divestiture of Pakhoed's Furness subsidiary, which is involved in logistics and port services, as well as restructuring at its Seaport Terminals and of its Rotterdam facilities for mineral and edible oils handling.

These measures will involve extraordinary expenses and have "a significant impact" on net profit this year. However, Pakhoed said the result from "ordinary operations" would remain roughly unchanged.

Pakhoed said Univar's activities, to be consolidated from July 1, would make an immediate contribution to its bottom line, despite the fact that Univar made only a small profit last year. It also plans to expand further in the east Asian oil and chemical transport markets.

In 1995, Pakhoed increased net profits from Fl 92.7m to Fl 121.5m.

HP claims computing record

By Louise Kehoe in San Francisco

Hewlett-Packard, the US computer group, has claimed a performance record in the technical workstation sector with machines used in complex design and modelling applications.

The HP machines, introduced yesterday, are based on a new version of the company's Pa-Risc microprocessors and are almost three times faster than existing HP workstations.

HP, number two in the $5.2bn world market, saw technical workstation revenues grow 25 per cent last year, faster than those of Sun, which led the market last year with about a 30 per cent share.

The new machines mean designers of complex structures such as an aircraft wing, or a microchip containing millions of transistors, could shave weeks off the months that it might take to complete such a project, said Mr Dick Watts, vice-president and general manager of HP's computer systems organisation.

In particular, HP has lifted the 3D graphics performance of its workstations. While easily outpacing Sun's fastest workstations, the new HP machines are also three times faster than Silicon Graphic's highest performance graphics workstation, HP claims.

In terms of raw computing power, HP also claims to have overtaken the current performance leader, Digital Equipment. Performance is a critical competitive issue in the engineering and scientific market, where engineers seek the ability quickly to render complex graphic models for mechanical and electrical design.

HP also unveiled intranet software to enable engineers linked to computer networks to collaborate more efficiently. The software, which incorporates a Netscape browser, allows engineers to find stored files more quickly.

HP's technical intranet software would help engineers become more productive through faster data access, said Mr Mark Canepa, general manager of HP's workstation division.

Nasdaq company faces suit

By Maggie Urry in New York

The US Securities and Exchange Commission has filed a lawsuit against Comparator Systems, alleging the company and three of its officers broke securities laws. The company, involved in fingerprint identification technology, has denied the charges.

Trading in the company's shares on Nasdaq was halted by the National Association of Securities Dealers on May 9 after the share price leapt from a few cents to nearly $2 in four days of remarkably heavy trading, and then fell sharply.

The SEC's complaint alleges that Comparator, Mr Robert Rogers, its chairman, Mr Gregory Armijo, a director, and Mr Scott Hitt, a former vice-president, overstated the company's assets so as to pass the Nasdaq's minimum size requirements to maintain its stock quotation and to enable it to sell shares to investors.

The SEC alleged: "The defendants (including Comparator itself) sold tens of millions of shares of Comparator stock to investors while making material misrepresentations concerning the financial status of the company".

The NASD has already launched a review of its maintenance standards in the wake of the episode.

At present, a company quoted on Nasdaq's SmallCap market must have assets of $2m to maintain the quote.

The SEC complaint also alleges that the company stole a new generation of fingerprint technology and told investors it owned the technology, which had substantial market potential.

A group of investors who bought shares after they rose sharply has already filed a lawsuit against the company. The group said last month it was reviewing the valuation of $4.4m of assets.

Comparator went public in 1979 but is not profit-making. The SEC's complaint covers the accounts for the years ending June 1994, June 1995, and financial statements for the first three quarters of the current year.

NEWS DIGEST

Canadian Marconi surges in final term

Canadian Marconi, the defence electronics group moving into commercial products, posted fourth-quarter net profit of C$6.6m (US$4.8m), or 27 cents a share, up from C$1.6m, or 7 cents, a year earlier, as a result of better margins and rising productivity. Revenues were C$82m against C$89m.

The company, 51 per cent held by GEC of the UK, almost doubled earnings in the year from C$4.7m, or 20 cents, to C$9.1m, or 38 cents, on sales flat at C$251m. Commercial business reached 46 per cent of sales, and the order backlog at March 31 was C$180m against C$206m a year earlier.

Robert Gibbens, Montreal

DFR to warn on Inco bid close

Diamond Fields Resources will provide four days' advance warning of the planned closing date for Inco's C$4.3bn (US$3.14bn) takeover. The deal was to have closed on May 29, but this was delayed by a lawsuit filed by former Texas associates of Mr Jean Raymond Boule, DFR co-chairman. DFR shareholders will have four days to decide which option they wish to accept under the Inco bid. *Robert Gibbens*

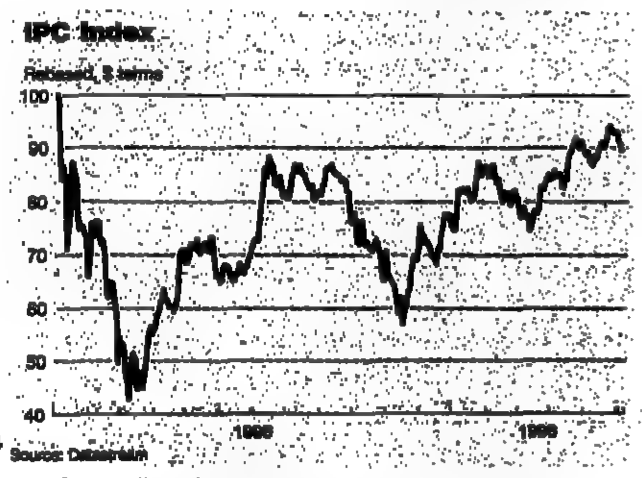
Private interest in Ontario Hydro

The crown-owned Ontario Hydro – one of Canada's two largest electric power utilities – confirmed it was negotiating possible private-sector investment in its nuclear generation system. Industry reports claim Morgan Stanley Canada has made an approach with an offer from private investors. *Robert Gibbens*

SB to buy Colombia drugs group

SmithKline Beecham, the Anglo-US drugs group, is to acquire Italmex, a Colombian pharmaceuticals company with sales of $19m, to bolster the Colombian OTC drugs business that it acquired from Sterling Health in 1994. Italmex's main drug is paracetamol, accounting for 40 per cent of sales. *Jenny Luesby*

Mexican search for maturity leads to Chicago



The bourse has launched offshore derivatives, reports Laurie Morse

The Mexican stock exchange, the Bolsa Mexicana de Valores, helped launch offshore derivatives in its benchmark IPC equity index in Chicago last week. The move is expected to encourage greater international participation in the Mexican stock market.

The rare co-operation between the BMV, the Chicago Mercantile Exchange and the Chicago Board Options Exchange is a precursor to Mexico opening its own domestic derivatives market this autumn. Although the Chicago contracts could provide stiff competition to the BMV's own derivatives, Mexican stock exchange executives say the benefits outweigh the risks.

"We have seen a major integration of our economies," says Mr Manuel Robleda, BMV chairman. "Not recognising the relevance of globalisation to our markets would be a mistake."

The IPC index contracts launched in Chicago will provide international money managers with a facility to hedge or perform arbitrage trades using the Mexican share market and Chicago's corresponding dollar-based futures and options contracts.

Historically, the ability to limit risk from share holdings with exchange-traded derivatives has greatly increased liquidity and international participation in equity markets. The BMV has an automated order delivery system, similar to the New York Stock Exchange's Dot system, that allows traders to buy all 35 stocks in the IPC index simultaneously to help arbitrage.

Mexican government regulations aimed at limiting systemic financial risk sidelined the BMV's own plans to trade IPC-based futures and options after the 1994 peso devaluation and currency crisis. However, those regulations are in the process of being relaxed, and Mr Robleda is confident the BMV will be able to open its derivatives market this September.

"All our technical systems are working perfectly," he says. "We are just awaiting some details from the government." The government recently asked for public comment on new derivatives rules and has now issued regulations that allow share borrowing and lending – a feature crucial for portfolio asset allocation.

Once the regulatory details are in place, the BMV plans to launch futures on the IPC index denominated in pesos, as well as futures on the Ceta, the three-month Mexican Treasury instrument, and a peso/US dollar futures contract. Mr Bernardo Gonzalez-Arechiga, the BMV's senior vice-president for derivatives, says the futures contracts would be traded in open outcry on the BMV's floor, while options would follow on an electronic system.

The Chicago exchanges have promised to provide technical and educational support for the BMV's derivatives initiative. While the CME's peso and IPC futures contract may compete head-to-head with similar futures on the BMV, there are enough differences to offer some trading opportunities, says Mr Hernado Sabao, executives director for derivatives at Serfin, a Mexican investment company.

The launch of the Mexican equity derivatives coincides with revival in the country's stock market. Despite the economy's battering after the peso's devaluation, foreign investment in Mexican equities has held relatively constant at about 27 per cent of market capitalisation, and has crept up to about 29 per cent in the past four months.

"What we find is that foreign investment didn't actually leave Mexico, or what did leave was replaced [after the currency crisis], at least in the equity sector," says Mr Gerado Flores Deuchler, the BMV's chief executive officer. Although the IPC index plunged 39 per cent after the devaluation, it had fully recovered by March 1995, and by May 22 this year it had reached a record 3,352.

The CME has already found there is significant global demand for Mexican risk management products. Its year-old US dollar/peso futures contract has open positions with a notional value close to $1bn.

The BMV's Mr Gonzalez-Arechiga says the Chicago's futures contracts on pesos and the IPC index will actually provide a barometer for his exchange. Cross-market co-operation "is one of the things we are looking for", he says. "It will be a sign of market maturity for us if we can succeed with cross-margining and cross-hedging agreements between our derivatives and those in Chicago."

Facia's shoe shops go into administration

By William Lewis, John Mason and Christopher Brown-Humes

Shoe shops belonging to the Facia Group were yesterday put into administration after accountants KPMG withdrew a High Court challenge to have them placed into receivership along with other parts of the group.

After lengthy out-of-court negotiations, KPMG and United Mizrahi Bank, which has lent £7m ($11m) to Facia, agreed to drop their challenge to three Facia shoe subsidiaries being put into administration.

Lawyers for Sears, which petitioned for an administrator to be appointed to the shoe shops it sold to Facia, said that Mr Stephen Hinchliffe, chairman of Facia, had not opposed the administration order.

KPMG's decision to back down means that approximately 380 shoe outlets, including Freeman Hardy Willis, Trueform and Curtess will now be managed by Price Waterhouse, appointed as administrators.

On Saturday, United Mizrahi Bank called in KMPG as receivers to the Facia Group and approximately 500 of its speciality outlets - including Contessa, Oakland and Torq - after deciding to call in its £7m loan.

Grant Thornton, receivers to Salisburys, another part of the Facia Group, said that together with KMPG more than 30 "expressions of interest" had been received from potential purchasers for different parts of the Facia Group.

Separately, Mr Hinchliffe said in an interview with the Financial Times that he was negotiating with several US investors in an attempt to regain control of the Facia businesses in receivership by paying off United Mizrahi Bank.

Mr Hinchliffe claimed that Facia had been witholding payments to Sears because it had provided "insufficient stock and insufficient services". Sears denies this.

At the weekend KPMG said Facia had debts of about £30m on annualised sales of £250m and had lost £9m in the past 16 weeks. However Mr Hinchliffe said Facia's debts were no more than £7.5m and recent losses were due to it having been "the worst three months of trading year".

Mr Hinchliffe said that he was providing "full co-operation" to KPMG who yesterday gained access to Facia's head office in Sheffield.

Sears' investors unhappy

By Ross Tieman

Liam Strong, the chief executive of Sears, is facing increasing criticism from disgruntled shareholders after Facia Group, the buyer of its unwanted shoe shops, went into receivership.

Fund managers at one leading Scottish investment institution said yesterday they were prepared to lead calls for his resignation this year unless he implemented a satisfactory recovery for Sears.

Dissatisfaction with the management of Sears deepened after the company lifted provisions in respect of the disposals to £74m. An extra £25m of provisions were needed after the collapse of Facia because it emerged that Sears had retained freeholds or leases of many of the shops, and owned much of the stock.

The Scottish institutional shareholder said yesterday: "If he doesn't turn things round in the next couple of months he is going to be out on his ear." He added: "He is not performing. The market and the shareholders are running out of patience."

Some shareholders are sympathetic to the company's difficulties. "They were faced with a choice of closure costs or a potential sale that resulted in a lower charge. The net results appear to be pretty similar," said the head of one English institution.

Analysts are less charitable. "Over the last few years Strong's and Sears' credibility have gradually eroded," said one. "We are entering the end-game of the current strategy."

Barclays to merge private banking

By Motoko Rich

Barclays Bank has applied for a separate banking licence for its London-based private banking businesses in an effort to offer an integrated asset management service to wealthy clients.

It will unite under one legal umbrella its four London-based private banking operations, which manage £2.8bn of funds.

The banking licence will allow the four businesses to operate as a separate entity which can provide independent advice – as opposed to "tied advice" which would only allow the businesses to recommend Barclays products.

The move highlights strong growth in the market for managing the assets of "high net worth" individuals.

According to Lloyds' Private Bank, a rival, the market is expanding at an annual rate of about 6 per cent. Last year, assets placed in Barclays' London-based businesses grew 28 per cent. It said about half the assets managed in London were from domestic clients.

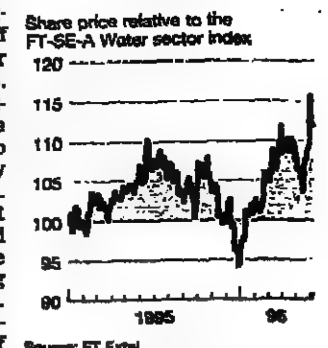
The new UK subsidiary will provide investment management services, trust and fiduciary management, as well as traditional banking services such as current accounts. Its average client puts £1m of funds under management.

Barclays' UK private banking services includes BZW Portfolio Management and Barclays Private Trust.

LEX COMMENT

Yorks Water

Yorkshire Water
Share price relative to the FT-SE-A Water sector index



Source: FT Extel

If this is the "punishment" for its failures during last summer's drought, Yorkshire Water has been let off lightly. Despite the water regulator's harsh words, there is no rebate for Yorkshire's customers, merely a commitment by the utility to raise next year's prices by less than previously agreed. This will cost Yorkshire just £40m in lost income, spread over three years, at a time when it will be making annual profits of over £300m. Nor should it prove too difficult to make up a chunk of that lost revenue by squeezing out further efficiencies from the core business: the company's cost base is still about £400m.

Of course Yorkshire need not have given away anything at all. Since it was not in breach of its licence conditions the water regulator had no legal powers to force it to give up revenue before the next periodic review in 1999. But with the company in such bad odour with the public, its new management has been falling over itself to accept blame and make amends. Apart from the £40m price reductions, the group has now promised a total of £220m of additional investment to improve supplies and reduce leaks.

Shareholders may ask what they are getting out of all this. One answer is that, if Yorkshire has cleared the air vis-a-vis the regulator, it should be able to revive its plans for a share repurchase. The group's balance sheet is under-utilised and it could buy back at least 20 per cent of its shares (for about £300m) without seriously stretching its finances. If it does not, a predator will surely do the job for it.

David Lloyd asked to clarify his role

By Roderick Oram, Consumer Industries Editor

Whitbread wrote yesterday to Mr David Lloyd asking the former tennis player to clarify whether he wished to remain involved with the tennis and health club business he sold to Whitbread last year for £200m ($304m).

The letter from Mr Peter Jarvis, Whitbread's chief executive, followed weekend reports that Mr Lloyd was considering resigning because he was denied a management role in David Lloyd Leisure since it became a division of the brewing and leisure group.

He is chairman of the division on a salary of £240,000 a year but management control passed to a three-man Whitbread team led by Mr Steve Philpott, managing director.

"He's important as a figurehead to wheel out for events and we want him to stay but if he goes it won't make much difference to running the business," Whitbread said.

Mr Lloyd had been expected to make a statement yesterday but did not. "David is seeking to clarify his management position but he's not trying to wrest back management control," a spokesman for him said yesterday.

Mr Lloyd believed he still had a leading role to play in the company.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Azlan	Yr to Mar 31	186.5	(90.5)	10.5	(3.91)	30.3†	(12.5)	2.6	Aug 30	2.1	3.6	3.1
Cleveland Trust	Yr to Mar 31	4.09	(2.22)	1.82	(0.77)	6.8†	(6.1)	3.35	July 12	3.3	5.8	5.7
Faber Prest	6 mths to Mar 31	45.1	(47.2)	1.29♣	(3.44)	1.91	(17.21)	6†	-	6	-	17
Hambro Insurance	Yr to Mar 31	95.1	(89)	11.1	(8.03)	10	(7.4)	3.7	Aug 18	3.7	5.55	5.35
Independent Parts	Yr to Mar 31 ♦	20.3	(16)	2.7	(2.6)	12.58†	(9.62)	4	Aug 15	-	6	-
South Staffs Water	Yr to Mar 31	61.6	(60)	15.8	(14.3)	194	(173)	54	Jul 1	49	77	68
Stakis	6 mths to Mar 31	95.8	(82.8)	12	(11.5♥)	2.38	(2.21)	0.95	Sept 5	0.75	-	1.75
Victrex	6 mths to Mar 31	19.4	(15.1)	6.26	(4.37)	5.9†	(3.9)	1.5	July 31	-	-	-
Wainhomes	Yr to Mar 31	96	(96.9)	2.06	(10)	2	(10.8)	3	Aug 6	3	4.5	4.5
Whitecroft	Yr to Mar 31	143.3	(131.2)	6.08	(12.7♥)	14.1	(24.2)	3.25	Aug 12	2.75	5	4.25

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
MOIT	Yr to Mar 31	377.5	(306.7)	3.67	(2.54)	24.43	(16.92)	9.25	July 16	8	18.25	15
MOIT S	Yr to Mar 31	40.5	(29.2)	2.69	(0.289)	4.13	(0.44)	2	July 16	0.4	3.55	0.4

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♣After exceptional charge. ♥After exceptional credit. †On increased capital. ♦Comparatives pro forma.

BZW makes surprise choice

The appointment of Mr Bill Harrison as chief executive of BZW is the most significant in European investment banking this year, writes John Gapper. It settles the succession at the top of one of the key British firms contending to take a place with the US big league as leaders in global investment banking.

The appointment is a surprise in two ways. First, Barclays has overlooked the obvious claim of Mr Donald Brydon, who was a successful head of its fund management arm before moving to be deputy chief executive in 1994. Second, Mr Harrison is not the American "big hitter" BZW might have recruited.

Mr Harrison's task is a substantial one.

As to why Barclays had not recruited a star from a big US firm such as Goldman Sachs, Mr Martin Taylor, chief executive of Barclays, insisted that the bank would have been prepared to pay the going rate. In some cases, this is up to $10m per year. But it thought the "cultural fit" with Mr Harrison was preferable. He is an unlikely merchant banker in some ways. He was educated at the London School of Economics rather than an Oxbridge college, and he still has a Birmingham accent. He is a bustling, energetic man who lacks the disdainful arrogance of many stars of the investment banking industry.

But former colleagues at Flemings say his management abilities are not so great as his dealmaking capacity. He has relied on others to tackle administration.

A second question is the depth of Mr Harrison's experience outside corporate finance. Although capital markets – the part of an investment bank that distributes primary share offerings – was his responsibility at Flemings, he has little experience of secondary equity markets, or of bond markets.

Mr Harrison's immediate task is to reassure those such as Mr Graham Pimlott, BZW's head of merchant banking, who could have doubts about their future.

Casinos restrain Stakis to 13% rise

By James Buxton, Scottish Correspondent

Strong growth in Stakis' hotels division was partly offset by a drop in operating profits at its casinos, leaving the interim pre-tax figure 13 per cent ahead before exceptionals.

Excluding the flattering effect on the comparison of last year's £900,000 exceptional gain on the sale of Ashbourne Homes, pre-tax profits for the half year to March 31 were 4 per cent ahead at £12m ($18.24m) against £11.5m.

Mr Jim McCarvill, managing director of the casino division, left the company last week. A new managing director is to be appointed in the next two months and will join the board.

Operating profit in the hotels division, which is larger than the casino operation, rose 31 per cent to £17m (£13m).

The division increased the average room rate by 6 per cent to £45.59 and pushed its occupancy rate up by six points to 70.8 per cent.

The casino division reported a drop in operating profit of £1.4m, from £6.4m to £5m. Although the cash drop – the amount exchanged for chips – increased by £5.2m and the gaming win percentage rose from 18.3 per cent to 18.5 per cent this was not sufficient to meet increased costs, resulting from the acquisition of a casino in Bournemouth and manning additional tables.

Mr David Michels, chief executive, said the casinos had performed badly because of a combination of the effect on gambling habits of the National Lottery, the hot weather, guest fees (which were later withdrawn) and lack of promotion. But the performance had improved in the first three months of 1996, and attendance in the current quarter was better. More attention was being given to promotion; and "people are getting a little bored with scratchcards and the lottery," Mr Michels said.

Stakis yesterday estimated its expected tax rates for the next four years, responding to concern in the City that rising tax charges could impair its earnings growth.

Azlan leaps to £10.5m

By Paul Taylor

Strong demand for advanced computer networking products was underlined yesterday as Azlan announced a near trebling of annual pre-tax profits.

Azlan also extended its geographic reach across Europe. Pre-tax profits jumped from £3.8m to £10.5m ($16m) for the year to March 31, while turnover rose to £196.5m (£90.5m).

The strong profits growth and positive outlook helped lift Azlan's share price – which was less than 180p a share a year ago – by a further 26p to 665p.

Brendan Corr

Adrian Lamb, finance director (left) and Christian Martin

The results, which continued to outpace market growth, highlight the success of Azlan's strategy of concentrating on distributing a limited range of higher-margin networking products from leading manufacturers to resellers.

Companies are becoming more reliant on computer networks, which in turn are becoming more complex: hence the growing demand not only for the products Azlan supplies, but also for training and other services. Mr Christian Martin, who took over as chief executive following a management reorganisation 20 months ago, said the group had also "improved operating margins and enhanced market coverage across Europe".

In continental Europe, sales increased from £36.6m to £115.2m, as a result of organic growth, start-ups and acquisitions.

The Continent accounted for almost 60 per cent of group turnover compared with 40 per cent in 1995.

It now has a presence in about 90 per cent of the European networking market.

Unigate raises $65m by selling US restaurants

By Roderick Oram, Consumer Industries Editor

Unigate, the food processor and distribution group, has sold half its US restaurant businesses for $65m three years after abandoning their US float after the restaurants ran into trading difficulties.

DenAmerica is paying $50m cash for the Black-eye Pea restaurants, with the balance covered by a note due for repayment by next March 31.

Most of the 100 company-owned, full-service, casual restaurants are in Texas, Georgia, Oklahoma and Washington DC. A further 30 are franchised. They made an operating profit of $4.7m in the year to March and had net asset value of $92.3m, excluding goodwill.

"They've been struggling to find a buyer for more than a year," one analyst said.

Unigate is still looking for a buyer for its other US restaurants – 110 Taco Bueno fast food outlets and five Casa Bonita/Crystals restaurants.

Unigate said it would take a £59.5m provision for the loss on its sale of the two US chains in its accounts for the year to March 31, which it will report on Monday. Of the total, £38.2m is goodwill previously written off. One analyst estimated net assets of the two was about £140m.

In the spring of 1993, Unigate's US advisers were trying to float the two chains together to raise between $220m-$250m.

Black-eye Pea and Taco Bueno made operating profits of £13.3m in the 1991-92 financial year. After the float was aborted, Unigate continued to invest in the former with a refurbishment programme.

Selling Taco Bueno would end a string of disposals by Mr Ross Buckland, Unigate's chief executive. He has focused the group mainly on chilled dairy foods and some meats, areas where the company is seeking acquisitions.

NEWS DIGEST

Tesco service to challenge banks

Tesco is to take on the high street banks by offering shoppers much higher interest rates than they can get on their normal current accounts.

The UK supermarket group said yesterday it was extending its successful Clubcard loyalty card scheme, which has 8.5m users, by adding debit and interest payment facilities.

Clubcard Plus will offer 5 per cent gross annual interest on deposits – as much as 20 times higher than rates offered by the leading high street banks. National Westminster Bank, which is administering the Tesco scheme, pays just 0.25 per cent gross interest on its interest-bearing current account. Tesco's terms are also better than some building societies'.

Several other UK retailers, notably Marks and Spencer, offer financial services, as do other continental groups, including the French retailer Carrefour and Ahold of the Netherlands.

Christopher Brown-Humes

Emap disposal for £200m

Emap, the media and exhibitions group, will today announce the sale of its regional newspaper business to Johnston Press, the Edinburgh-based newspaper company, for about £200m ($304m).

The sale, which will coincide with Emap's annual results, will more than double Johnston Press's share of the UK regional newspaper market to more than 6 per cent, making it the fifth largest publisher in its sector.

It will also alleviate pressure on Emap's balance sheet following a recent acquisitions spree, and raise speculation over its next likely target area.

Emap, which has interests in business and consumer magazines, radio and exhibitions in the UK, has been keen to replicate its success on the Continent. It already holds 15 per cent of the French consumer magazine market following the £142m purchase in March of three titles. It is also known to be keen to enter the US business magazine market.

The purchase is the biggest deal so far for the fast expanding Johnston.

Christopher Price and James Buxton

Therapeutic Antibodies to float

Biotechnology company Therapeutic Antibodies (TAb), which specialises in poison antidotes, yesterday announced plans to seek a London stock exchange listing through a £30m ($45.6m) institutional placement, valuing the company at £150m.

TAb is a low-tech biotechnology company, which has refined the traditional way of developing antibodies for snake bites and other types of poisoning.

It has already raised $45m through private placements in the US, and has production sites in Wales, and Australia.

LAW

Export ban may lead to damages

EUROPEAN COURT

A ban by the UK government on the live export of sheep to Spain could give rise to a right to damages for individual exporters harmed by the decision, the European Court of Justice has ruled.

The ban had been imposed on the grounds that Spanish slaughterhouses were failing to comply with a 1974 European directive on the stunning of animals before slaughter.

In spite of the fact that Spain had adopted the relevant legislation, the UK government was convinced several Spanish slaughterhouses were not acting in compliance with the European rules and that there was, therefore, a substantial risk that animals exported to Spain would suffer treatment outlawed under European law.

The European Commission investigated and came to the conclusion that the UK action was unlawful. Following that decision, the ban was lifted. However, prior to its lifting, one sheep exporter, Hedley Lomas, was refused a licence to export its sheep to Spain by the UK Ministry of Agriculture, Fisheries and Food.

The application was refused even though the sheep were destined for a slaughterhouse which had been approved according to European rules since 1986, the rules were being complied with, and the UK authorities had no evidence to the contrary.

Hedley Lomas challenged the ministry's refusal of a licence in the English High Court. It sought a declaration that the refusal contravened European law and, in addition, damages. The High Court then referred the case to Luxembourg.

The European Court found first that the refusal to grant an export licence breached European provisions on the free movement of goods. Although Treaty of Rome provisions allowed for the maintenance of restrictions on the free movement of goods for the protection of animal health, this exception could not be relied on where European legislation already existed in the particular area in question.

The European Court reiterated that a member state could not unilaterally adopt measures designed to obviate a breach of European law by another member state.

The court then turned to the issue of damages. It had recently laid down the rules for the availability of damages in the case of breaches of European law by member states in the Factortame case. This involved the payment of damages by the UK government to Spanish fishermen banned from British waters in 1989.

The court said the rules laid down in Factortame applied to the present case. Thus it was necessary to demonstrate, first, that the rule of law infringed was intended to confer rights on individuals; second, that the breach was sufficiently serious; and, third, that there was a direct causal link between the breach of the member state's obligation and the damage sustained by the injured parties.

The European Court found that the provision of the Treaty of Rome which had been breached by the UK was of direct effect and, therefore, the first criterion was fulfilled.

On the second condition, it said where, at the time of the breach, the member state in question was not called on to make any legislative choices and had only a reduced – or no – discretion, the mere infringement of European law could be sufficient to establish the existence of a sufficiently serious breach.

The court said the third condition should be determined by the national court. If the national court determined that there was a relevant causal link, then the state would have to make reparation in accordance with its domestic law.

However, the conditions for reparation in such circumstances could not be less favourable than those relating to similar domestic claims and could not be such as to make it impossible or excessively difficult to obtain damages.

C-5/94: R v Ministry of Agriculture, Fisheries and Food, ex parte Hedley Lomas (Ireland) Ltd, ECJ FC, May 13 1996.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

Toshiba looks to the future

Toshiba, the integrated electronics maker, has chosen Taizo Nishimuro, currently executive vice president, as its next president. The appointment, which marks a break with Toshiba's tradition of choosing its head from those with experience in heavy electrical equipment, underlines the growing importance the company attaches to businesses such as semiconductors, consumer electronics and PCs which are Nishimuro's forte.

Not only does Nishimuro have no experience of the heavy electrical business that has been the core of Toshiba's wide-ranging operations, but he has leapt over nine more senior executives who were considered likely candidates for the job.

A graduate of the elite economics department of Keio University, Nishimuro, 60, is a fluent speaker of English who spent a good part of his career building up Toshiba's operations in the US, where he is credited with returning three shaky US companies to the black.

His cosmopolitan background and warm manner are also credited with bringing the often tense negotiations over the standard for digital video discs to a successful agreement.

He is taking on the job of steering Toshiba at a difficult time. Uncertainty in the semiconductor business, which has provided the company with strong profits in recent years, is matched by fierce competition in the emerging multimedia industry.
Michiyo Nakamoto

Greenberg junior rises

Evan Greenberg has been elected to the board of AIG, the New York-based insurer, prompting speculation that he is being groomed to succeed his 70-year-old father, Maurice 'Hank' Greenberg, one of the most famous names in insurance.

The succession question at AIG has been a prickly subject, particularly since Greenberg's older son, Jeffrey, unexpectedly resigned last year and subsequent re-emerged at Marsh & McLennan, the broking group where he began his insurance career in 1976. Marsh & McLennan announced last month that Jeffrey Greenberg had been elected to its board.

Hank Greenberg, who has been at the helm of the highly profitable AIG group for 30 years, has said repeatedly that he has no plans to retire. He is only the second chief executive of AIG, which was founded in Shanghai in 1919. Yesterday AIG said there were plans at hand for an choosing an eventual successor, but that details would not be disclosed.

Evan Greenberg, 41, has worked for 21 years at AIG and currently heads American International Underwriters, AIG's foreign general business which includes operations in Japan, Russia, the Middle East and Latin America. He previously served for three years as chief operating officer and then chief executive of AIG companies in Japan and Korea. *Ralph Atkins*

Enskilda appointment

Jacob Wallenberg, the chief operating officer of Enskilda, the merchant banking arm of Sweden's Skandinaviska Enskilda Banken and scion of the powerful Wallenberg family which is the bank's biggest shareholder, has plucked Pippa Mitchell from the ranks to be his assistant.

Mitchell, a highly experienced banker in syndicated loans and money-market products, joined Enskilda 2½ years ago after a career at Chase Manhattan and Merrill Lynch. Her brief as Wallenberg's assistant will be to emphasise the international nature of the group and to bring product knowledge to the bank's top management.

Mitchell, who started out in banking in 1977, will be based in London and Stockholm. Her position in Enskilda's debt capital markets team will be taken by Fiona Hagdrup, who will assume coverage of Enskilda's Swedish corporate client base for syndicated loans. *Antonia Sharpe*

Eurotunnel board move

Charles Petruccelli, chairman of American Express Travel Services International, has been appointed a non-executive director of Eurotunnel. He replaces Bernard Thiolon, honorary chief executive of Credit Lyonnais, the French bank, who has been on the board of the Channel tunnel operator for ten years.

Thiolon's presence on the board had been the subject of criticism from some shareholders, who argued that his links with Credit Lyonnais led to a conflict of interest. Credit Lyonnais is one of the largest lenders to the Anglo-French company and is a member of the six-bank steering group which is organising the crucial refinancing negotiations between Eurotunnel and its 225 banks.

Petruccelli, 45, who has been with American Express for 20 years, runs all its travel and business card businesses outside the UK. *Geoff Dyer*

Reinshagen's rise

Christie's Europe has appointed three vice-chairmen, one of whom is the first woman to hold the position. Maria Reinshagen (left), also deputy chairman of Christie's Switzerland and head of Christie's Zurich office, is described as "one of our most effective business-getters" by Christopher Balfour, chairman.

Also appointed as vice-chairmen are François Curiel, international head of Christie's jewellery department, and John Lumley, international head of the 19th and 20th century picture departments.

Reinshagen started out as a primary school teacher in Zurich, but moved to the US in 1962 and worked in galleries there and in Switzerland before joining Christie's in 1978 to open the Zurich office. She became a member of Christie's European board in 1985, and the London board in 1990.

Reinshagen was also the first woman appointed to the board of Union Bank of Switzerland in 1994, with Anne-Lise Monnier. *Clare Gascoigne*

ON THE MOVE

■ Alfredo Moroni, previously chairman of Italgas, has been elected chairman of AGIP PETROLI.

■ Australia's former Liberal Party leader, John Hewson, is to head a new fund management business being set up by Churchill Resources. Hewson, who is also chairman of ABN Amro Australia, will be executive chairman of Gold and Resources Investments Ltd, which will initially focus on gold and resource investments.

■ Stefano Borghi, chief executive of the Italian subsidiary of Cable & Wireless, has been named chief executive of NOKIA Telecommunications Italia, the Italian subsidiary of the Finnish mobile phones group. He will be replaced at C&W by Massimo Biondi.

■ Rudolf Rupprecht, formerly chairman of MAN Nutzfahrzeuge, will replace Klaus Goette as chairman of MAN, the German truck and printing machine manufacturer, after the shareholders' meeting on December 10. Goette will join the supervisory board, replacing Helmut Periet.

■ Yvan Allaire has been appointed executive vice-president, strategy and corporate affairs, at the aerospace and transport group BOMBARDIER; he has been counsellor to the chairman and chief executive of the the group since 1985.

■ STANDARD CHARTERED BANK Australia has named Thomas Dunton as its new chief executive and managing director, to replace Chris Harrison, who has retired. Dunton moves from Standard Chartered Hong Kong, where he was head of corporate banking.

■ Alan Yamashita has been named head of the MERRILL LYNCH debt capital markets group in Asia, with responsibility for debt origination and derivative products in the region.

■ Grant Thomas has resigned as executive chairman of MALBAK, the South African consumer group, after "differences of opinion with the board which could not be reconciled". David Brink, managing director of Sankorp, is being appointed to the Malbak board and takes over as non-executive chairman on July 1. Peter Beningfield becomes acting chief executive and will continue as chief executive of South African Druggists.

■ PT TELEKOMUNIKASI INDONESIA has a new board of directors, including Brig Gen (rtd) Asman Akhir Nasution as president, along with Dadad Kustiwa, John Welly, Harry Supangkat and Andi Siswaka Faisal as directors. The new chief commissionaire is Bambang Subianto, the finance ministry's director general of financial institutions.

■ Jeffrey Hughes, a founding partner of The Cypress Group, and Eliot Fried, a managing director of Lehman Brothers, have resigned from the board of LEAR CORP.

■ Larry Carter, marketing vice president with BELLSOUTH Corporation in the US, has been appointed managing director of BellSouth New Zealand. He replaces Keith Davis, who resigned in April.

■ Paul Chan has been named vice president and managing director of COMPAQ Computer Asia/Pacific.

■ SINGAPORE AIRLINES has appointed Edmund Cheng Wai Wing, chairman of the Singapore Tourist Promotion Board, Tjong Yik Min, executive director of Singapore Press Holdings and Lim Chee Onn, deputy chairman and managing director of Straits Steamship Land, to the board.

■ Douglas Harris, senior deputy comptroller for capital markets, is leaving the US Office of the Comptroller of the Currency.

■ Stanley Crooke, co-founder, chairman and CEO of Isis Pharmaceuticals, has been appointed as chairman of GENEMEDICINE, a company engaged in the discovery and development of "gene medicines".

■ Patrick FitzPatrick has been named vice president and chief financial officer of American Mobile Satellite Corporation (AMSC). He was previously senior vice president and chief financial officer at PRC, a subsidiary of Black & Decker.

■ Kenneth Davis has been appointed chairman of ALEXANDER & ALEXANDER, the US risk management, consulting and retail insurance broking subsidiary of Alexander & Alexander Services.

■ Cynthia Liu, director of JARDINE FLEMING's investment services, is leaving the company.

■ Antonio Enrique Savignac, former Mexican tourism minister, is stepping down as secretary-general of the Madrid-based WORLD TOURISM ORGANISATION. He is succeeded by his French deputy, Francesco Frangialli.

■ James Chambers, senior vice president, sales & customer service at Nabisco Biscuit Company, has been appointed president of NABISCO REFRIGERATED FOODS, formerly Fleischmann's Co. The move is a job swap with Kenneth Romanzi, who had been president at Nabisco Refrigerated Foods since 1993.

■ Arrigo Bianchi di Lavagna, managing director of Italian insurance company FONDIARIA, has resigned.

■ Vittorio Mincato, vice chairman of Italian chemical group ENICHEM, part of ENI, rises to chairman. Current chairman Marcello Colitti is to become honorary chairman.

■ Hwang Peng Yuan has retired as chairman of Singapore trading company INTRACO. Ang Kong Hua, deputy chairman, succeeds him.

■ Mark Weisdorf becomes executive vice president and managing director of investment banking, at HSBC JAMES CAPEL CANADA. He was formerly a managing director of CIBC Wood Gundy.

■ Matsuo Fukuzawa, senior managing director, and Kiyoshi Kawabata, deputy chairman, are retiring from their directorships of the SANWA BANK.

■ Leonard Pomata, 50, has been named president of Litton Industries' subsidiary, PRC. He replaces William Hoover, who is leaving the company.

■ Dennis Goggin has been appointed as president of VISA INTERNATIONAL'S Asia-Pacific region and a member of its management executive committee.

■ Robert Ross, president of TURNER INTERNATIONAL, a unit of Turner Broadcasting Systems has resigned.

■ Masaaki Tsuchida, deputy governor of Japan's government-affiliated PEOPLE'S FINANCE CORP, is to resign, and is expected to leave his post on 10 June 1996. He is a former director-general of the Finance Ministry's Banking Bureau.

■ PIRELLI has five new board members: Eugenio Coppola di Canzano, Roberto Gavazzi, Giuseppe Gazzoni Frascara, George Krayer and Carlo Alessandro Puri Negri. Outgoing chairman Leopoldo Pirelli, Filiberto Pittini, Ambrogio Puri, Alfred Sarasin and Piero Sierra are stepping down.

International appointments

Please fax announcements of new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

COMMODITIES AND AGRICULTURE

Aluminium prices fall as US labour talks prosper

By Kenneth Gooding, Mining Correspondent

Aluminium prices on the London Metal Exchange fell by $21 a tonne, or nearly 1.5 per cent, yesterday following news that some of the biggest US producers of the metal had reached tentative agreement with unions for new employee contracts.

Combined annual capacity of the three – Aluminum Company of America (Alcoa), Ormet, and Reynolds Metals – is 1.9m tonnes of primary aluminium, more than 45 per cent of the US total and more than 10 per cent of global capacity. The previous three-year contracts expired on Friday.

Aluminium for delivery in three months on the LME fell to $1,571 a tonne at one point under light pressure from speculative and hedge fund selling. But trade buying took the price up from these low levels so that in after-hours trading last night aluminium was $1,583 a tonne, down only $9 from Friday's level.

Many analysts expect aluminium to recover from this level. Billiton Metals, part of South Africa's Gencor mining group, is forecasting that the metal will average $1,653 a tonne in 1996 and that prices will move up as the year progresses.

At the Merrill Lynch financial services group, analyst Mr Ted Arnold says he expects aluminium prices to begin to improve from late in the third quarter of this year. "This is because the underlying rate of consumption growth in aluminium is running at between 2.5 to 3.5 per cent (depending on whose calculations you take) whereas brownfield and greenfield expansions now under way and planned show a rate of capacity growth of only about 1.3 per cent a year," he writes in Merrill's lates Commodity Market Trends report.

"Even with full reactivation of all 1.5m tonnes of idled capacity (of which some 700,000 tonnes have already been reactivated) it is still only a matter of time before stock levels are drawn down to dangerously low levels."

Mr Peter Richardson, commodities analyst at broker S.G. Warburg, is forecasting a 30,000 tonne supply surplus this year but says the market is likely to move back to a small deficit in 1997. "We expect a recovery in consumption growth in 1997 to underpin a strong recovery in prices." Mr Richardson is forecasting an average 1996 aluminium price of $1,697 a tonne.

Strike hits Russian nickel plant

A strike had halved output at Russia's Nadezhdinsky metallurgical plant, a subsidiary of the Norilsk Nickel group, by half and cut total Norilsk production by about 12 per cent, a company official said yesterday, reports Reuters from Moscow.

Mr Boris Gulevich, Norilsk group technical questions director, said he had no information on when the strike might end.

Itar-Tass news agency said on Saturday that more than 10,000 workers at the plant in Russia's Far North began striking on Friday over living conditions in the remote town.

Strikers were waiting for a visit by Norilsk senior managers and representatives of shareholder Uneximbank on Wednesday, when a decision on whether to continue the action would be taken, the agency said.

Norilsk Nickel's produced 180,100 tonnes of nickel and 338,700 tonnes of refined copper in 1995. Uneximbank has a 38 per cent stake in the Norilsk group and has four seats on the board.

Labour disputes are frequent at Norilsk Nickel's smelters and mines.

● Mr Alexander Khloponin, new chief executive of Norilsk Nickel of Russia, the world's second biggest producer of the metal, has acted swiftly to squash suggestions that his reorganised management team may change the group's international marketing arrangements, writes Kenneth Gooding.

In a formal statement late last week he insisted that Normaco, the group's London based subsidiary, would continue to sell most of the nickel, copper and cobalt that Norilsk exported.

Mr Khloponin was installed as chief executive last week by Uneximbank, of which he is a board member.

Immediately after the major board reorganisation a Norilsk official suggested to the Reuters news agency that there might be marketing changes and said the group was talking to Glencore, the Switzerland based trading organisation. This raised hopes among many western trading organisations that they might be able to pick up some of Norilsk's business.

Mr Claes Lundman of Normaco, which is 75 per cent owned by Norilsk and 25 per cent by AG Resources of Switzerland, said that his organisation was responsible for marketing all the group's "official exports" – between 85,000 and 90,000 tonnes of Norilsk's refined nickel.

He said he expected that the new Norilsk management would also attempt to exert better control of the flow of other Norilsk nickel to the west. That would create more price stability.

Analysts believe that up to 50,000 tonnes of nickel, out of Norilsk's total annual output of 180,000 tonnes, were exported by Russian and western traders via "unofficial" channels last year.

Future remains obscure for BSE researchers

The Institute for Animal Health at Compton, Berkshire, remains under threat of privatisation, amalgamation, closure or transfer to a university

FARMER'S VIEWPOINT

By David Richardson

Ian Laing, The president of the Board of Trade last week answered a parliamentary question on the future of some of the UK agriculture's plant science research institutes which had been the subject of the government's Prior Options Review of Public Sector Research Establishments. "I am satisfied," he said, "that the functions of these institutes are needed and that they should retain their separate existence."

He went on to say that the institutes would remain eligible to compete for research funding from the government-sponsored Biotechnology and Biological Sciences Research Council. By this, he implied that it would continue to be necessary for the staff at the institutes concerned to obtain substantial private funding from such sources as the agricultural and pharmaceutical industries but that some government money would remain available so long as research projects were fully justified and competitively costed.

Many hundreds of boffins in white coats at the Institute of Arable Crops Research, the Institute of Grassland and Environmental Research, the John Innes Centre and the Silsoe Research Institute, will have breathed a collective sigh of relief. And the entire arable sector of agriculture should have joined them; for the work done at such centres is of vital importance to the long-term prosperity of their industry.

About 40 establishments were involved in the review, among others doing vital and urgent work of agricultural and human importance. For instance, the Institute for Animal Health at Compton, in Berkshire, whose management controls two other related centres in England and Scotland, is at the forefront of investigations into Bovine Spongiform Encephalopathy. But in spite of having been subjected to almost continuous government scrutiny since the current series of reviews began in 1994 and notwithstanding this year's £1m increase to £6.4m in the Ministry of Agriculture's BSE research budget, it is still under threat of possible privatisation, amalgamation, closure or transfer to a university.

This lack of security for a research centre engaged in matters of current international importance is a scandal. Surely, the on-going crisis over beef alone, never mind Compton's range of other research of national interest, means this must be neglected no longer.

For not only are scientists at Compton seeking to establish once and for all whether BSE can jump from one species to another, they are urgently looking for means of identifying infected cattle while they are alive and long before they exhibit symptoms. Furthermore, their work recognises that when the BSE business is all over it will be more necessary than ever before for farmers to be able to give quality assurances on all livestock products and that these will include aspects of health.

In addition, as politics increasingly dictates the pre-eminence of market forces, there is an economic imperative for UK agricultural production to be competitive with that of the rest of the world. This can only be achieved on the back of sound scientific research.

The livestock industry contributes over 60 per cent of total UK farm output with an annual value at the farm gate of some £9.5bn. But disease reduces production by around 17 per cent, or £1.5bn a year, and that figure takes no account of BSE. Nor does it take account of the suffering of the animals, the threat to international trade, the implications for food quality and the fact that some animal diseases can be transmitted to humans.

Research at Compton is seeking to address all of those problems. By gaining understanding of the processes of infectious diseases, scientists are developing methods to control them. They are, for instance, well advanced in work that should ultimately enable strains of poultry to be developed which are free from salmonella infection. This is being done by identifying salmonella-resistant genes in chickens and inserting them into other chickens.

In time, this should enable the desired trait to be introduced across entire flocks, which would themselves go on to breed resistant offspring. It has been described as producing "designer chickens" and there is similar activity which may eventually control other crucial diseases in other animal species. Such benefits are being achieved by genetic engineering but they do not involve bizarre and ethically-suspect practices like producing rat sperm in mouse testes or growing human ears on the back of a mouse.

Compton and its associated laboratories are also involved in the protection of UK herds and flocks from so-called exotic diseases from other parts of the world. The risk of epidemics in the UK of such devastating problems as foot and mouth disease or African swine fever increased significantly with the introduction of the European single market. This opened up borders that had previously been closed or, at least, tightly controlled to the movement of farm animals all over the European Union. In some of the countries on the fringes of the Community, such exotic diseases are endemic and if they were to spread to the UK the costs could be catastrophic.

It has been estimated, for instance, that were there to be another epidemic of foot and mouth disease in the UK on the scale of that in 1967, when almost half a million cattle had to be slaughtered and burned in the fields, the cost would be in excess of £1.5bn – again without taking account of the effects on trade, the reputation of UK food and so on.

Compton's associate institute at Pirbright, in Surrey, has already proved that its anticipatory protective measures work. Back in the 1970s, its specific forecasts of possible foot and mouth infection in the Channel Islands and the south of England from an outbreak in northern France proved pinpoint accurate. One case was identified in each area predicted. Both herds were immediately slaughtered and the outbreak stopped in its tracks.

Only secure, independent research institutes could be expected to provide such protection. Commercial ones would be legitimately more concerned with their duties to their shareholders.

Meanwhile, instead of being able to concentrate on the vital work of learning how to minimise and control animal diseases, BSE among them, for the good of the entire nation, the administrators of such establishments as the Institute for Animal Health have been forced to spend much of their time and energy defending their position to the government. It is high time the matter was resolved and the scientists the government claims to rely on allowed to get back to their work.

MARKET REPORT

Producer selling sends London coffee futures lower

Robusta COFFEE futures fell to the lowest levels for nearly four months at the London Commodity Exchange yesterday as producers, fearing lower prices ahead of growing supply, unloaded crops, traders said. "They are expecting prices to fall further," said one. "The selling has been mostly from Asian, mainly Indonesian, producers."

At the close on Monday the benchmark July contract was off $46 at $1,759 a tonne after trading at a high of $1,809.

Traders said the selling was triggered by the contract's failure to recover after sliding to near eight-week lows of $1,780 on May 24.

LCE COCOA futures dribbled back to settle lower at the close after a hesitant recovery in the morning session.

Holders of long positions were disappointed by the lack of follow-through buying as well as a strong start to gradings in preparation for this month's delivery period.

"It hasn't helped the sentiment," said one trader.

Compiled from Reuters

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1540.5-41.5	1575-76
Previous	1564-65	1595-96
High/low		1584/1570
AM Official	1546.5-47.5	1578-79
Kerb close		1582-3
Open int.	223,576	
Total daily turnover	65,243	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1292-95	1330-33
Previous	1295-300	1334-35
High/low	1300/1285	1340/1325
AM Official	1285-87	1325-26
Kerb close		1333-35
Open int.	4,827	
Total daily turnover	1,441	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	811-12	816-17
Previous	823-24	827-28
High/low	816/813	829/817
AM Official	817-18	821.5-22.5
Kerb close		822-23
Open int.	35,391	
Total daily turnover	7,921	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7865-75	7980-90
Previous	7985-95	7995-8000
High/low	7935	8090/7965
AM Official	7930-35	8050-51
Kerb close		7960-70
Open int.	44,467	
Total daily turnover	10,631	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6180-90	6210-20
Previous	6220-30	6250-60
High/low		6290/6210
AM Official	6220-30	6255-60
Kerb close		6205-10
Open int.	17,855	
Total daily turnover	2,931	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1018.5-19.5	1045-46
Previous	1018-19	1044-45
High/low	1021	1049/1045
AM Official	1021-21.5	1048-49
Kerb close		1044-45
Open int.	78,550	
Total daily turnover	18,162	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2517-20	2428-29
Previous	2545-49	2447-47
High/low	2544	2455/2425
AM Official	2543-44	2443-45
Kerb close		2433-34
Open int.	187,257	
Total daily turnover	55,173	

■ LME AM Official £/$ rate: 1.5475

LME Closing £/$ rate: 1.5542

Spot: 1.5515 3 mths: 1.5494 6 mths: 1.5483 9 mths: 1.5475

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
May	119.75	–	–	–	717	533
Jun	116.10	–2.30	117.80	116.00	642	3,740
Jul	113.65	–1.35	115.90	112.80	3,673	14,948
Aug	112.00	–1.10	112.90	112.00	40	927
Sep	110.55	–0.80	111.00	109.80	1,155	5,525
Oct	109.65	–0.60	109.80	109.60	2	677
Total					5,942	38,825

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	391.20-391.50		
Opening	391.20-391.50		
Morning fix	390.60	252.049	487.192
Afternoon fix	390.70	251.983	487.009
Day's High	391.25-391.55		
Day's Low	390.60-390.90		
Previous close	392.00-392.50		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.70	6 months	4.44
2 months	4.68	12 months	4.18
3 months	4.60		

Silver Fix	p/troy oz.	US cts equiv.
Spot	348.20	538.35
3 months	352.90	544.90
6 months	357.35	551.35
1 year	366.60	565.10

Gold Coins	$ price	£ equiv.
Krugerrand	392-395	253-255
Maple Leaf	401.50-404.05	
New Sovereign	92-95	59-61

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	390.2	–0.7	391.0	389.9	6,134	4,326
Jul	391.8	–0.8	–	–	–	–
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

[illegible]

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

[illegible]

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

[illegible]

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

[illegible]

■ CRUDE OIL IPE ($/barrel)

[illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

[illegible]

■ GAS OIL IPE ($/tonne)

[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	124.15	–2.10	125.25	124.25	321	1,498
Sep	111.55	–0.25	111.55	111.35	10	370
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

[illegible]

■ BARLEY LCE (£ per tonne)

[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]

■ POTATOES LCE (£/tonne)

[illegible]

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
May	1359	+1	1369	1355	31	588
Jun	1270	+8	1275	1265	10	804
Jul	1230	+10	1245	1230	21	2,895
Oct	1339	+3	1348	1335	55	1,348
Jan	1349	+14	1345	1345	75	137
Apr	1365	+15	1320	1320	50	10
Total					154	4,278

	Close	Prev
BFI	1337	1348

FUTURES DATA

All futures data supplied by CMS.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1077	+46	1030	1030	13	21
Jul	1072	–5	1085	1066	1,408	17,938
Sep	1091	–7	1105	1090	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

[illegible]

■ COCOA (ICCO) (SDR's/tonne)

[illegible]

■ COFFEE LCE ($/tonne)

[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

[illegible]

■ COFFEE (ICO) (US cents/pound)

[illegible]

■ WHITE SUGAR LCE ($/tonne)

[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	78.87	–0.23	78.71	77.95	4,298	28,015
Mar	79.50	–0.35	79.70	79.10	388	5,158
May	80.13	–0.22	80.25	79.80	374	2,028
Jul	80.55	–0.12	80.75	80.50	172	1,020
Total					8,154	66,686

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	122.90	–1.10	124.00	121.90	2,152	10,911
Sep	120.90	–1.00	121.75	119.70	[illegible]	4,913
Nov	117.20	–1.10	118.25	117.20	108	1,621
Jan	115.90	–0.85	116.75	115.75	95	3,824
Mar	117.50	–1.00	118.25	117.50	17	288
May	118.50	–0.85	–	–	–	159
Total					3,288	21,715

VOLUME DATA

Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ REUTERS (Base: 18/9/31=100)

Jun 3	May 31	month ago	year ago
2112.3	2106.6	B/H	2305.4

■ CRB Futures (Base: 1967=100)

May 31	May 30	month ago	year ago
254.07	252.25	257.95	N/A

■ GSCI Spot (Base: 1970=100)

May 30	May 29	month ago	year ago
203.87	203.03	209.33	180.81

Tea

There was strong general demand. Landed bright liquoring Kenyas met active competition at fully firm to dearer rates while improved quality Burundis advanced. Colory mediums were also well supported at last levels with plainer teas steady. The few Ceylons were again very strong. Offshore met good competition at fully firm rates. Quotations: best available: 153p/kg, good: 130p/kg, good medium: 121p/kg, medium 111p/kg, low medium 98p/kg. The highest price realised this week was 153p/kg for a ceylon bopf.

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	62.325	+0.850	62.750	61.500	7,306	23,184
Aug	65.225	+0.700	65.300	64.275	8,009	31,613
Oct	66.125	+0.500	66.325	65.500	2,308	22,630
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ LIVE HOGS CME (40,000lbs; cents/lbs)

[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lb)

[illegible]

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME

[illegible]

■ COPPER (Grade A) LME

[illegible]

■ COFFEE LCE

	Jul	Sep	Jul	Sep
1900	19	90	158	252
1950	7	78	197	290
2000	4	67	244	329

■ COCOA LCE

	Jul	Sep	Jul	Sep
875	197	219	-	3
900	172	195	-	5
925	147	173	-	7

■ BRENT CRUDE IPE

	Jul	Aug	Jul	Aug
1800	28	-	37	-
1850	-	15	70	-
1900	-	-	114	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) +or-

		+or-
Dubai	$16.92-7.02x	+0.190
Brent Blend (dated)	$18.24-8.29	+0.165
Brent Blend (July)	$17.92-7.93	+0.085
W.T.I.	$19.86-9.88x	+0.095

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$206-208	-1
Gas Oil	$169-171	+1.5
Heavy Fuel Oil	$83-85	
Naphtha	$182-184	-2
Jet fuel	$190-192	+1
Diesel	$169-170	+1

■ NATURAL GAS (Pence/therm)

Bacton (Jun)	12.50-13.00	+1.00

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

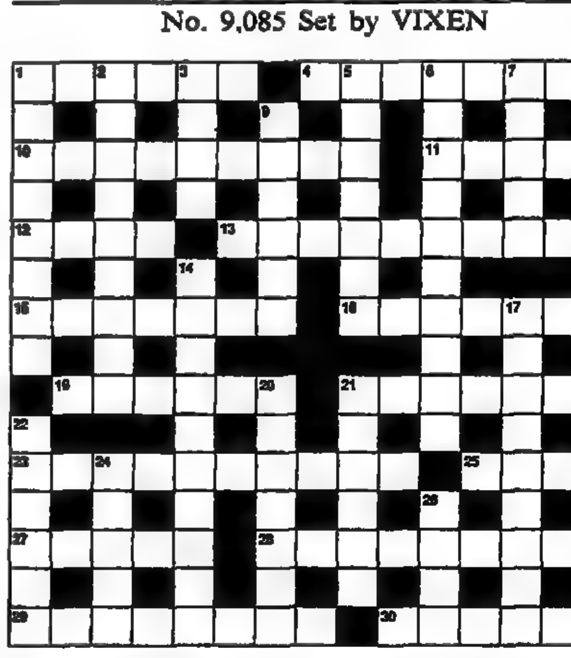
Gold (per troy oz)♣	$391.45	-0.80
Silver (per troy oz)♣	538.50c	-2.00
Platinum (per troy oz.)	$400.75	+1.50
Palladium (per troy oz.)	$131.00	-0.50
Copper	134.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	15.41r	-0.20
Tin (New York)	290.50	-1.00
Cattle (live weight)	99.60p	+1.13*
Sheep (live weight)	146.87p	-5.70*
Pigs (live weight)†	115.29p	+5.11*
Lon. day sugar (raw)	$295.9	+7.2
Lon. day sugar (wte)	$394.5	+2.5
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	Unq	
Wheat (US Dark North)	Unq	
Rubber (Jun)♥	102.75p	-1.00
Rubber (Jul)♥	102.75p	-1.00
Rubber (KL RSS No1)	382.00m	-1.00
Coconut Oil (Phil)§	815.0v	
Palm Oil (Malay.)§	$512.5	+7.5
Copra (Phil)§	$521.0z	
Soyabeans (US)	218.0z	
Cotton Outlook'A' Index	83.75c	+0.45
Wooltops (64s Super)	448p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z May/Jun. x Jul. v Apr/May. y Apr/Jun. w Jun/Jul. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 444 head of pigs sold.

JOTTER PAD

CROSSWORD

No. 9,085 Set by VIXEN



ACROSS

1 Possibly ten get very cold but remain attractive (6)
4 Scoffed about legal right – a put off (8)
10 Highly implausible stories! (4,5)
11 A spice endlessly used in savoury food (5)
12 Article about dealing with a specific piece of land (4)
13 Left with poetry in one's solitude (10)
15 Tear madly after a taxi to see a show (7)
16 Such scoundrels are affected in sea-going craft (6)
19 Stop for a while (6)
21 He'll put a good finish on wooden furniture (7)
23 Preparing to perform in public (10)
25 Not at all friendly – a common complaint (4)
27 A little model Hindus make in India (5)
28 Observes focus is a problem for the viewer (3-6)
29 Still only for the male worker around the north (8)
30 Stick given as modish present (6)

DOWN

1 Send for a gate (8)
2 It's only fair the board should accept new role (9)
3 To snub middle-men can be shrewd (4)
5 Tenants to watch in inferior accommodation (7)
6 Got out – given aid – reacted badly (10)
7 Liberal politician framed by porter (5)
8 Tax being cut (6)
9 Not quite a pound maximum (6)
14 A speech about noise could be the making of a minister (10)
17 Country music (9)
18 A girl must take care (8)
20 See a novel use for cinders (7)
21 The fellow has an explanation – dope (6)
22 Deals on which sailing men relied at one time (6)
24 A woman with aspiration laid off (5)
26 Confound retiring beads! (4)

Solution to Saturday's prize puzzle on Saturday June 15.
Solution to yesterday's prize puzzle on Monday June 17.

INTERNATIONAL CAPITAL MARKETS

Treasuries recover from early losses

By Lisa Bransten in New York and Antonia Sharpe in London

US Treasury prices showed marginal gains at midday yesterday, after weaker than expected figures on business activity in May helped spur a recovery from early morning losses.

The benchmark 30-year Treasury fell more than a quarter point in early trading, sending the yield well over 7 per cent, but by midday the long bond had recovered its losses and was $\frac{1}{8}$ stronger at 87[illegible] to yield 6.985 per cent. The two-year note was $\frac{1}{32}$ higher at 99[illegible], yielding 6.220 per cent, and the September 30-year Treasury bond future was up [illegible] to 107[illegible].

Prices jumped at midsession after the National Association of Purchasing Management said its index of business activity had fallen to 49.3 in May from 50.1 in April. The consensus on Wall Street had been for a rise to 51.2 per cent.

However, the news was read as mixed for the bond market, because the decrease in activity was accompanied by a rise in the prices-paid component to 50.8 from 40.1. Also, the index was held down by a large decrease in inventories, which could lead to stronger figures once producers finish running through inventories.

Mr Joseph Liro, chief economist at CIBC Wood Gundy, said: "The factory sector is poised to do substantially better once the inventory adjustment process has run its course."

■ European government bond markets remained at the mercy of the US Treasury market yesterday. They opened lower in response to the fall in Treasuries on Friday and because of weakness in the dollar against the D-Mark. The dollar's fall hurt both the core markets and the high-yielders, Italy in particular.

Ms Mary Bloem, bond strategist at Paribas, said the markets were further disappointed by the US April leading indicators, but the subsequent release of a lower than expected NAPM index triggered an afternoon recovery.

GOVERNMENT BONDS

However, Ms Bloem expected activity to remain subdued this week because of the important US non-farm payrolls data on Friday. "We see the risk on the downside," she said.

On Liffe, the September bund future rose 0.13 to 95.48 on turnover of 137,473 contracts while in Milan, the September Italian 10-year government bond future was 0.44 higher at 114.98 on volume of 29,688 contracts.

■ UK gilts were lifted by a weaker than expected purchasing managers' report for May, which confirmed that activity in the manufacturing sector remained subdued and that price pressures were easing.

"The report hammered home the point that rates won't be going up," said Mr Jonathan Loynes, UK economist at HSBC Markets.

The report also allowed gilts to marginally outperform continental European markets yesterday, with 10-year paper rising by about a half-point and the spread over Germany coming in to 170 basis points from 174 points on Friday.

Mr Loynes said that despite the favourable picture of the economy and the widely-held opinion that gilts were cheap compared with German bunds, the market was having difficulty in breaking out of its current spread range of 170 to 180 basis points.

Gilt dealers forecast a quiet week for the market and did not expect anything significant to emerge from tomorrow's meeting between Mr Kenneth Clarke, the chancellor of the exchequer, and Mr Eddie George, the governor of the Bank of England.

On Liffe, the September long gilt future stood [illegible] higher in the afternoon at 105[illegible] on volume of 21,385 contracts.

■ Japan was the top performer in J.P.Morgan's global government bond index monitor in May, with a local currency return of 1.5 per cent.

J.P.Morgan said the primary drivers for the Japanese market were solid growth numbers and an expected rate rise in the near future.

The other top performers in the index were Italy and Canada, with returns of 1.42 per cent and 1.05 per cent respectively.

South Africa, which is not included in the index, showed a local currency return of 1.6 per cent.

Andersen Consulting to provide DTB system

By Andrew Fisher in Frankfurt

Deutsche Börse, which runs the Frankfurt stock and futures exchanges, has chosen Andersen Consulting to provide its new electronic securities trading system which is expected to cost between DM100m and DM150m.

Andersen previously developed the computerised trading system for Deutsche Terminbörse (DTB), the futures and options exchange. The other main contender for the new trading system was IBM, which was responsible for the Boss order-routing system.

The final choice was narrowed down to Andersen and IBM when Deutsche Börse decided earlier this year not to use the French NSC system because the costs of adapting it for the Frankfurt exchange would have been too high.

Deutsche Börse said it chose Andersen because it would be less complex and costly to base the new system, the EHS, on a trading platform already in use. Thus, it said, "the proposal submitted by Andersen Consulting entailed a lower project risk".

Mr Werner Seifert, Deutsche Börse's chief executive, said the EHS should be completed on schedule and within budget. He has already said the cost would be less than the previously estimated DM150m. Last month, he said the introduction of EHS would be speeded up so full operation could begin at the end of 1998.

Bankers expect the final cost to be around DM120m, although some say it should be kept below DM100m. The first phase, the replacement of the Ibis electronic trading system for 106 blue chips and other shares, should be completed in 1998. EHS is part of an overall investment programme which will exceed DM500m.

Launch of Bolsa de Derivados 'to boost liquidity'

By Conner Middelmann

The forthcoming launch of Portugal's long-awaited derivatives exchange is likely to boost liquidity in the country's stock and bond markets, and should attract more international investors into Portugal's financial markets, officials said yesterday.

DERIVATIVE INSTRUMENTS

The Bolsa de Derivados do Porto (BDP) is to kick off on June 20 with two futures contracts: the PSI-20 stock index future and the OT-10 Future on 10-year government bonds.

The exchange is also planning to launch a three-month money-market instrument based on the Lisbon inter-bank offered rate (Lisbor), for which it is awaiting government approval. It should be available by June 20, officials said.

So far, the exchange has 35 members, some of whom are subsidiaries of foreign banks. Trading will be screen-based, using a variant of the electronic dealing system employed by Meff, Spain's futures exchange.

Future plans for new contracts include stock options, options on futures and foreign-exchange contracts.

Europe's higher-yielding markets have been attracting much attention lately on expectations that they will perform strongly in their attempt to qualify for European monetary union in 1999.

Indeed, Portugal's inflation rate has eased significantly in recent years and is set to decline to 3.2 per cent by year-end, said Professor Texeira dos Santos, government secretary of finance and treasury, at a briefing in London yesterday.

Portugal's budget deficit as a percentage of GDP stood at 5.2 per cent last year and is set to fall to 4.2 per cent this year, he said. Last, its public debt to GDP ratio stands at 71.6 per cent – roughly the EU average – and is set to decline to around 70 per cent by year-end.

"I think we will make significant progress which will be enough to meet the criteria to join the single currency," Professor Texeira dos Santos said.

He added that improving economic fundamentals should help the country's financial markets.

"Portugal has a well-established regional market, with independent supervision, a clear and transparent legal framework and state-of-the-art operating procedures," said the Professor. "The privatisation process has helped the development of our market, making it more integrated within the international capital markets."

According to Mr Manuel Alves Monteiro, chief executive of the new exchange, international holdings of Portuguese securities are likely to increase with the advent of the futures exchange.

"Some foreign investors, for example in the US, aren't allowed to invest in markets that do not offer hedging instruments," he said. Currently between 4 to 6 per cent of the Portuguese bond market is owned by foreigners, he said, adding that this share could rise to 15–20 per cent.

After years of wrangling between the competing Lisbon and Oporto stock exchanges over which of them should be allowed to trade derivatives, the Portuguese government decided in 1993 that Lisbon should become the centre for share trading while Oporto would be the seat of the new derivatives exchange.

Issuance dominated by retail-targeted offerings

By Conner Middelmann

The eurobond market was dominated by retail-targeted offerings while institutional investors lay low ahead of Friday's publication of US employment data and the quarterly tankan report in Japan.

INTERNATIONAL BONDS

Kredietbank, the Belgian bank, issued \$200m of 2½-year bonds yielding 15 basis points over Treasuries at the re-offer price. Some observers said the issue was driven by arbitrage considerations, rather than investor demand, and thought it would be slow to sell.

Indeed, the yield spread widened in the course of the day to 19 basis points but lead manager Nikko reported demand from Swiss investors as well as some retail accounts in Belgium and the Netherlands.

Another retail-targeted dollar offering came for Rabobank, a well-known retail name. The Dutch bank issued \$100m of 6.25 per cent bonds with a yield flat to Treasuries, fungible with \$200m of bonds launched two weeks ago. Daiwa and Rabobank acted as lead managers.

Rabobank also made its debut in the sterling sector, with £100m of 7 per cent 3½-year bonds priced to yield 25 basis points over three-year gilts at the re-offer price. According to lead manager NatWest Capital Markets, the issue saw good demand from Swiss retail accounts.

Dealers have reported a pick-up in European retail demand for sterling paper in recent weeks, based on expectations of continued currency strength and the perception that sterling bonds offer an attractive yield pick-up over core-European markets.

The New Zealand Debt Management Office is repurchasing three outstanding Yankee issues worth \$500m and two sterling bonds totalling £197.5m. Morgan Stanley is acting as exclusive manager of the dollar operation and BZW on the sterling buy-back.

New Zealand aims to have retired all its foreign currency debt by the year-end. The bonds will be bought at spreads of 10–35 basis points over their current yields.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Federal Home Loan Banks(a)	200	(a1)#	100.00R	Jun 1999	0.1875R	-	Morgan Stanley & Co Intl
Kredietbank Intl Finance(s)	200	6.50	99.989R	Dec 1998	0.15R	+15(6¾%-98)	Nikko Europe
Rabobank Nederland(b,s)	100	6.25	99.08R	Dec 1998	0.1875R	[illegible]	Daiwa Europe
SWISS FRANCS							
Bayerische Hypo(s)✩	100	3.50	101.30	Dec 1998	1.125	-	Credit Suisse
STERLING							
Rabobank Nederland(s)	100	7.00	99.8871R	Dec 1999	0.1675R	+25(7¼%-99)	NatWest Capital Markets
GUILDERS							
Bayerische Hypo(s)	200	4.75	99.75R	Nov 1999	0.225R	+15(7¼%-99)	ABN Amro Hoare Govett
FRENCH FRANCS							
Crédit Local de France	5bn	6.00	100.05R	Jul 2002	0.275R	+19§	BNP/Merrill Lynch Finance
Lehman Brothers Holdings	500	5.375	99.929R	Jul 1999	0.35R	+46§	Banque Lehman Brothers
LUXEMBOURG FRANCS							
Oresund Consortium	2bn	(c)	102.25	Jul 2003	1.875	-	BGL

Final terms, non-callable unless stated. Yield spread (over govt bond) at launch supplied by lead manager. ✩Unlisted. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Callable on 11/6/97 at par. a1) 6¼% to 11/6/97, then 7¼%. b) \$200m launched 15/5/96 was increased to \$300m. c) 6¼% to 17/7/01, then 7¼%. § Over interpolated yield. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	106.7840	−0.070	8.96	8.86	8.78
Austria		6.125	02/06	97.6000	−0.040	6.48	6.47	6.57
Belgium		7.000	05/06	101.8900	+0.020	6.73	6.66	6.60
Canada *		8.750	12/05	106.9800	−0.080	7.70	7.46	7.70
Denmark		8.000	03/06	103.2800	−0.200	7.51	7.38	7.23
France	STAN	5.750	03/01	100.7500	-	5.59	5.49	5.63
	OAT	7.250	04/06	105.2100	−0.070	6.51	6.45	6.41
Germany Bund		6.250	04/06	98.0500	+0.030	6.52	6.40	6.31
Ireland		8.000	08/06	0.0000	-	0.00	7.58	7.53
Italy		9.500	02/06	100.2900	+0.110	9.46†	9.35	9.59
Japan	No 140	6.600	06/01	119.7279	+0.430	2.24	2.30	2.39
	No 182	3.000	09/05	99.0682	+0.180	3.13	3.25	3.33
Netherlands		6.000	01/06	97.1000	−0.020	6.41	6.31	6.27
Portugal		11.875	02/05	116.5500	−0.740	9.06	8.90	8.91
Spain		8.800	04/06	97.1900	−0.090	9.28	9.07	9.14
Sweden		6.000	02/05	85.0403	−0.210	8.50	8.63	8.26
UK Gilts		8.000	12/00	102-08	+4/32	7.44	7.40	7.42
		7.500	12/06	95-30	+14/32	8.08	8.05	8.01
		9.000	10/08	106-09	+20/32	8.18	8.14	8.11
US Treasury *		6.875	05/06	100-00	−4/32	6.87	6.66	6.53
		6.000	02/26	87-13	−6/32	7.01	6.84	6.79
ECU (French Govt)		7.500	04/05	103.2200	−0.100	7.00	6.87	6.76

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	6.27
Prime rate	8¼	Two month	-	Three year	6.46
Broker loan rate	7	Three month	5.21	Five year	6.67
Fed.funds	5¼	Six month	5.38	10-year	6.87
Fed.funds at intervention	-	One year	5.77	30-year	7.00

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	123.14	123.22	−0.10	123.24	123.06	85,670	147,757
Sep	121.62	121.74	−0.12	121.74	121.60	19,524	35,793
Dec	120.40	120.54	−0.10	120.50	120.40	563	9,868

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jul	Calls Aug	Calls Sep	Puts Jul	Puts Aug	Puts Sep
120	1.87	-	-	0.14	0.32	[illegible]
121	-	-	-	0.30	0.59	0.84
122	0.49	0.82	1.06	0.66	0.86	1.25
123	0.17	0.41	0.63	-	-	-
124	0.04	0.16	0.35	-	-	-

Est. vol. total, Calls 12,[illegible] Puts 10,388 . Previous day's open int., Calls 75,[illegible] Puts 84,176 .

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.20	96.44	+0.16	96.51	96.11	148617	65470
Sep	95.27	95.49	+0.14	95.55	95.16	151394	113693

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
9600	0.78	1.09	1.35	1.21	0.29	0.60	0.79	1.62
9650	0.47	0.80	0.99	0.99	0.48	0.81	1.00	1.89
9700	0.25	0.57	0.75	0.77	0.76	1.08	1.26	2.18

Est. vol. total, Calls 7821 Puts 8861. Previous day's open int., Calls 117343 Puts 112460

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	114.92	115.55	+0.45	115.62	114.82	49461	33608
Sep	114.39	114.95	+0.41	115.04	114.23	38261	30731

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
11450	2.00	2.45	1.55	2.80
11500	1.72	2.22	1.77	2.67
11550	1.48	2.00	2.08	3.15

Est. vol. total, Calls 1980 Puts 3105. Previous day's open int., Calls 38916 Puts 29935

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	99.15	98.43	-	99.35	98.36	70,407	59,664
Sep	98.72	98.25	-	98.75	97.90	1,526	3,081

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	105-15	106-06	+0-18	106-11	105-14	40143	60422
Sep	104-15	105-05	+0-18	105-12	104-14	27981	87686

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
105	0-60	1-13	1-35	1-54	0-40	1-09	1-23	2-44
106	0-21	0-46	1-03	1-29	1-11	[illegible]	1-57	[illegible]
107	0-07	0-25	0-44	1-08	1-61	2-15	2-34	[illegible]

Est. vol. total, Calls 1375 Puts 1100. Previous day's open int., Calls 14692 Puts 17846

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	90.66	90.72	−0.06	90.74	90.60	[illegible]	5,304
Sep	90.24	90.28	−0.12	90.34	90.24	70	3,214

US

■ US TREASURY BOND FUTURES (CBT) \$100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	108-01	108-00	−0-02	108-00	107-26	73,634	193,133
Sep	108-12	107-14	−0-03	108-16	107-09	416,227	206,060
Dec	105-26	105-27	−0-05	107-28	106-24	1,963	7,578

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	120.22			120.22	120.14	839	0
Sep	119.12			119.12	119.04	1909	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Mon Jun 3	Day's change %	Fri May 31	Accrued interest	xd adj. ytd		Low coupon yield Jun 3	May 31	Yr. ago	Medium coupon yield Jun 3	May 31	Yr. ago	High coupon yield Jun 3	May 31	Yr. ago
1 Up to 5 years (22)	121.09	0.09	120.98	2.17	4.26	5 yrs	7.58	7.60	7.43	7.60	7.64	7.46	7.70	7.75	7.60
2 5-15 years (19)	144.01	0.36	143.49	1.52	5.54	15 yrs	8.25	8.30	7.78	8.26	8.33	7.78	8.34	8.39	7.92
3 Over 15 years (9)	159.04	0.65	158.23	2.23	5.85	20 yrs	8.32	8.36	7.78	8.32	8.38	7.79	8.37	8.42	7.91
4 Irredeemables (6)	180.84	0.30	180.30	1.84	6.12	Irred.†	8.34	8.38	7.86						
5 All stocks (56)	140.05	0.32	139.65	1.95	5.16										

Index-linked	Mon Jun 3	Day's change %	Fri May 31	Accrued interest	xd adj. ytd		Inflation 5% Jun 3	May 31	Yr. ago	Inflation 10% Jun 3	May 31	Yr. ago
6 Up to 5 years (1)	196.44	0.05	196.34	0.93	4.43	Up to 5 yrs	2.92	2.94	2.99	1.45	1.50	1.47
7 Over 5 years (11)	185.55	0.25	185.05	1.35	1.81	Over 5 yrs	3.86	3.87	3.82	3.56	3.66	3.33
8 All stocks (12)	185.67	0.25	185.21	1.34	1.88							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%–7¾%; Medium: 8%–10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Jun 3	May 31	May 30	May 29	May 28	Yr ago	High*	Low*
Govt. Secs. (UK)	92.02	92.07	91.74	92.24	92.26	95.51	96.34	91.59
Fixed interest	111.56	111.80	111.60	111.75	111.86	114.60	115.23	110.74

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	May 31	May 30	May 29	May 28	May 24
Gilt Edged bargains	81.0	99.0	125.4	76.0	87.3
5-day average	93.8	94.9	95.6	94.2	97.6

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on June 3

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	98	98¼		7.25
ABN Amro Bank 7¼ 05	1000	98	98¼	−⅛	7.54
African Dev Bk 7¾ 23	[illegible]	94¾	95¼	−⅛	7.85
Alberta Province 7¾ 98	1000	102½	102⅝		6.62
Sweden 8 97	2500	103⅝	103¾		3.83
United Kingdom 7¼ 97	5500	104½	104⅝		3.75
Volkswagen Intl Fin 7 03	1000	102⅝	103		6.52
World Bank 0 15	2000	29⅞	30	−⅛	6.36
World Bank 5¾ 03	3000	[illegible]	[illegible]	−⅛	8.02
[illegible]					

Remaining entries of this table (US dollar, Swiss franc, yen, other and Deutsche Mark straights, floating rate notes and convertible bonds) are [illegible].

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
Shorts" (Lives up to Five Years)						
Treas 2pc 1996	0.91	5.80	218[illegible]	—	218[illegible]	210[illegible]
Conversion 10pc 1996	9.83	5.85	101[illegible]	—	104[illegible]	101[illegible]
Treas 13¼pc 1997‡‡	12.69	6.04	104[illegible]	−[illegible]	109[illegible]	104[illegible]
Exch 10½pc 1997	10.19	6.10	103[illegible]	—	105[illegible]	103[illegible]
Treas Cnv 7pc 1997‡‡	6.95	6.32	100[illegible]	—	101[illegible]	99[illegible]
Treas 7¾pc 2006‡‡	7.92	8.07	98[illegible]	+[illegible]	101[illegible]	94[illegible]
Treas 7¼pc 2006‡‡	7.96	8.10	97[illegible]	+[illegible]	100[illegible]	94[illegible]
Treas 8pc 2002-6‡‡	8.07	8.10	99[illegible]	+[illegible]	104[illegible]	95[illegible]
Treas 11¾pc 2003-7	9.96	7.95	119[illegible]	+[illegible]	125[illegible]	117[illegible]
Treas 8½pc 2007‡‡	8.30	8.14	102[illegible]	+[illegible]	106[illegible]	98[illegible]

Remaining entries of the UK Gilts Prices table (shorts, five to fifteen years, over fifteen years, undated, index-linked and other fixed interest stocks, with notes) are [illegible].

CURRENCIES AND MONEY

MARKETS REPORT

Markets quiet as traders wait for economic data

By Philip Gawith

Foreign exchanges had a fairly quiet day yesterday with traders and investors seemingly keeping their powder dry for events later in the week when the Japanese Tankan survey and the US payrolls report are released.

The dollar managed to recover some of its poise after the sell-off on Friday, although a gap does seem to have emerged between the positioning of the market (very bullish) and the rhetoric (increasingly cautious).

It finished little changed in London at DM1.5265, from DM1.5275 on Friday, but off an intra-day low of DM1.5183. Against the yen it closed at Y108.285, from Y108.1, and off the low of Y107.35.

Sterling maintained its firm showing, with the trade weighted index finishing unchanged at 86.2. Against the D-Mark it closed at DM2.365 from DM2.366, while against the dollar it finished at $1.5493 from $1.5494.

In the emerging markets field the focus was on the Czech koruna, following the surprise failure of Mr Vaclav Klaus's reformist government to win a majority in the weekend election. The currency opened about two per cent weaker than on Friday, but later recovered some of its poise to close about one per cent weaker.

■ Just as the market finds it difficult to get its head around the idea of Bundesbank sanctioned D-Mark weakness, so it struggles with the concept of independent sterling strength. It is little surprise, then, that analysts have scrambled around to explain the pound's recent strength, in many cases simply resorting to scepticism. One observer said the explanation lay in "stupidity".

Mr Jim O'Neill, chief currency economist at Goldman Sachs in New York, said there was obviously interest in buying sterling, but maintained that the reasons so far provided appear unconvincing. One is the "catch-up" argument – that sterling is the beneficiary of investors searching for high-yielding bond markets, and currency appreciation, who believe that similar moves in countries like Italy and Sweden have run their course.

Mr O'Neill argues that whereas these countries typically enjoyed undervalued currencies and a current account surplus, the pound does not appear undervalued, while the UK is running a current account deficit.

As for the "Labour party is good for the pound" argument, he said it was difficult to see why it was a "hot topic" now. While it is known that some of the leading hedge fund managers are impressed by Mr Tony Blair, the Labour party leader, there has not been evidence of large sterling purchases from the biggest funds in recent days.

Mr O'Neill said two other factors which had played a role in sterling's rally were options related purchases when sterling broke through $1.58, and cable (sterling/dollar) purchases from trend-following investors.

Although sceptical about the foundations of sterling strength, Mr O'Neill said it was possible sterling, like the Swiss franc, was acting as a leading indicator on the dollar. "It may be indicating that some fizz has gone out of the dollar." He said he did not believe cable could stay at current levels without some dollar weakness.

Mr Brian Martin, economist at Barclays in London, said he doubted whether the government wanted sterling above DM2.40, and suggested that a deterioration in Britain's trade account through currency strength would probably anyway serve as corrective device.

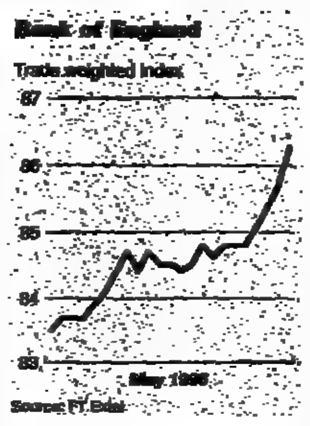
■ The debate over the finnish markka joining the ERM steps up a level today with parliament expected to pass legislation clearing the way for such a move. But Ms Wike Groenenberg, Northern Europe economist at Salomon Brothers in London, said "it remains unclear whether the Government will decide in favour of ERM entry any time soon."

Recent official comments have hinted at a delay of some months, and Ms Groenenberg said sentiment towards ERM entry appeared more positive at the turn of the year. She said the government might favour delaying entry until the currency had weakened to a more competitive level.

The behaviour of Sweden, a crucial trading partner, is also relevant, but Ms Groenenberg said she believed Finland would be prepared to enter the ERM independent of Sweden.

Bank of England

Trade weighted index



Source: FT Extel

■ Pound in New York

Jun 3	Latest	Prev. close
£ spot	1.5540	1.5515
1 mth	1.5533	1.5507
3 mth	1.5520	1.5494
1 yr	1.5490	1.5467

■ OTHER CURRENCIES

Jun 3	£	$
Czech Kr	43.0259 - 43.1026	27.8000 - 27.8500
Hungary	230.538 - 230.782	148.830 - 148.930
Iran	4648.00 - 4647.00	3000.00 - 3000.00
Kuwait	0.4636 - 0.4648	0.2993 - 0.2995
Poland	4.1699 - 4.1777	2.6920 - 2.6960
Russia	7803.88 - 7809.58	5038.00 - 5040.00
U.A.E.	5.6890 - 5.6918	3.6727 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Jun 3		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.6424	-0.0105	355 - 486	16.6723	16.5770	16.6111	2.3	16.5381	2.6	-	-	104.8
Belgium	(BFr)	48.6171	-0.1118	999 - 342	48.6420	48.4500	48.5121	2.6	48.3021	2.6	47.2821	2.7	106.6
Denmark	(DKr)	9.1331	-0.0124	290 - 372	9.1373	9.1023	9.1177	2.0	9.0849	2.1	8.9416	2.1	107.1
Finland	(FM)	7.2758	-0.0378	684 - 829	7.3130	7.2440	7.2712	0.7	7.2631	0.7	-	-	83.1
France	(FFr)	8.0110	-0.0095	088 - 133	8.0223	7.9928	7.9969	2.1	7.9690	2.1	7.8361	2.2	108.9
Germany	(DM)	2.3650	-0.0018	641 - 659	2.3687	2.3567	2.3601	2.5	2.3496	2.6	2.2993	2.8	108.1
Greece	(Dr)	373.195	-1.125	045 - 345	374.260	372.277	-	-	-	-	-	-	67.6
Ireland	(I£)	0.9766	+0.0006	757 - 774	0.9788	0.9754	0.9758	1.0	0.9745	0.9	0.9677	0.9	99.3
Italy	(L)	2391.34	-7.05	042 - 227	2400.16	2385.06	2399.59	-4.1	2414.89	-3.9	2467.39	-3.2	78.5
Luxembourg	(LFr)	48.6171	-0.1116	999 - 342	48.6420	48.4500	48.5121	2.6	48.3021	2.6	47.3621	2.5	106.6
Netherlands	(Fl)	2.6486	-0.0037	478 - 494	2.6499	2.6384	2.6421	2.9	2.6294	2.9	2.5703	3.0	106.6
Norway	(NKr)	10.1124	-0.0061	061 - 186	10.1623	10.0266	10.1034	1.1	10.0843	1.1	9.9886	1.2	98.6
Portugal	(Es)	243.880	-0.388	655 - 092	246.636	242.706	244.265	-2.1	245.19	-2.2	-	-	94.4
Spain	(Pta)	199.000	-0.756	925 - 077	199.215	198.221	199.31	-1.9	199.805	-1.6	201.46	-1.2	80.5
Sweden	(SKr)	10.4011	-0.0261	927 - 094	10.4429	10.3871	10.4023	-0.1	10.404	-0.1	10.4062	0.0	89.4
Switzerland	(SFr)	1.9355	-0.0047	345 - 364	1.9391	1.9278	1.9296	3.6	1.9165	3.9	1.8586	4.0	111.3
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	86.3
Ecu	-	1.2515	-0.0058	509 - 521	1.2586	1.2474	1.2502	1.2	1.2472	1.4	1.2339	1.4	-
SDR†	-	1.068300	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5472	-0.0001	467 - 477	1.5543	1.5452	-	-	-	-	-	-	-
Brazil	(R$)	1.5466	-0.0001	461 - 471	1.5522	1.5436	-	-	-	-	-	-	-
Canada	(C$)	2.1214	-0.0029	206 - 222	2.1263	2.1165	2.1207	0.4	2.117	0.8	2.109	0.6	84.2
Mexico	(New Peso)	11.5772	+0.0829	710 - 839	11.5857	11.5549	-	-	-	-	-	-	-
USA	($)	1.5493	-0.0001	490 - 496	1.5550	1.5456	1.5485	0.6	1.5471	0.6	1.5441	0.3	97.0
Pacific/Middle East/Africa													
Australia	(A$)	1.9331	-0.0074	321 - 341	1.9414	1.9285	1.9357	-1.6	1.9407	-1.6	1.966	-1.7	84.7
Hong Kong	(HK$)	11.9870	-0.0015	843 - 897	12.0001	11.9611	11.9789	0.8	11.9673	0.7	11.9475	0.3	-
India	(Rs)	54.1094	-0.1652	278 - 910	54.1920	53.8710	-	-	-	-	-	-	-
Israel	(Shk)	5.0836	-0.027	800 - 873	5.1220	5.0292	-	-	-	-	-	-	-
Japan	(Y)	167.765	+0.276	679 - 853	168.030	165.620	167.041	5.2	165.691	5.0	159.136	5.1	135.1
Malaysia	(M$)	3.8725	+0.0013	710 - 740	3.8826	3.8645	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2755	-0.0046	739 - 771	2.2856	2.2682	2.2805	-2.6	2.29	-2.5	2.3236	-2.1	106.7
Philippines	(Peso)	40.5807	-0.0182	609 - 005	40.6305	40.4909	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8105	-0.0003	092 - 118	5.8316	5.7975	-	-	-	-	-	-	-
Singapore	(S$)	2.1814	-0.0028	802 - 825	2.1885	2.1773	-	-	-	-	-	-	-
South Africa	(R)	6.7395	-0.0159	304 - 486	6.7840	6.7273	-	-	-	-	-	-	-
South Korea	(Won)	1217.36	-3.49	705 - 766	1223.21	1214.69	-	-	-	-	-	-	-
Taiwan	(T$)	42.6862	+0.0034	701 - 022	42.8857	42.6001	-	-	-	-	-	-	-
Thailand	(Bt)	39.2361	+0.0068	207 - 514	39.3710	39.1460	-	-	-	-	-	-	-

† Rates for May 31. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 3		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan Index
Europe													
Austria	(Sch)	10.7419	-0.0081	394 - 444	10.7470	10.6960	10.7224	2.2	10.6804	2.3	10.4968	2.3	104.6
Belgium	(BFr)	31.3800	-0.07	750 - 850	31.3970	31.2440	31.325	2.1	31.21	2.2	30.67	2.3	106.3
Denmark	(DKr)	5.8950	-0.0076	935 - 965	5.8978	5.8841	5.8875	1.5	5.8706	1.7	5.8015	1.6	108.4
Finland	(FM)	4.6961	-0.0239	923 - 998	4.7151	4.6876	4.6896	1.7	4.6776	1.6	4.6321	1.4	82.0
France	(FFr)	5.1707	-0.0058	702 - 712	5.1776	5.1461	5.1638	1.5	5.1495	1.6	5.0817	1.7	108.4
Germany	(DM)	1.5265	-0.001	262 - 268	1.5273	1.5188	1.524	2.0	1.5182	2.2	1.49	2.4	107.5
Greece	(Dr)	240.880	-0.71	830 - 930	241.300	240.300	242.555	-8.3	245.905	-8.3	259.88	-7.9	67.0
Ireland	(I£)	1.5865	-0.001	855 - 875	1.5925	1.5823	1.5871	-0.4	1.5879	-0.4	1.5795	0.4	-
Italy	(L)	1543.50	-4.45	320 - 380	1546.36	1540.24	1549.55	-4.7	1551.1	-4.6	1602	-3.8	76.0
Luxembourg	(LFr)	31.3800	-0.07	750 - 850	31.3970	31.2440	31.327	2.0	31.2205	2.0	30.74	2.0	106.3
Netherlands	(Fl)	1.7095	-0.0022	092 - 097	1.7102	1.7007	1.7062	2.4	1.699	2.4	1.6673	2.5	106.2
Norway	(NKr)	6.5271	-0.0048	249 - 295	6.5525	6.4617	6.5241	0.6	6.5186	0.6	6.4821	0.7	97.5
Portugal	(Es)	157.400	-0.24	300 - 500	159.120	156.610	157.715	-2.4	158.305	-2.3	160.45	-1.9	94.6
Spain	(Pta)	128.445	-0.48	420 - 470	128.510	127.950	128.695	-2.3	129.125	-2.1	130.665	-1.7	80.0
Sweden	(SKr)	6.7134	-0.0164	093 - 175	6.7287	6.7025	6.7246	-2.0	6.7419	-1.7	6.7839	-1.1	88.8
Switzerland	(SFr)	1.2493	-0.003	489 - 496	1.2502	1.2434	1.2458	3.4	1.2383	3.5	1.2048	3.6	110.6
UK	(£)	1.5493	-0.0001	490 - 496	1.5550	1.5456	1.5485	0.6	1.5471	0.6	1.5441	0.3	85.9
Ecu	-	1.2380	+0.0036	376 - 383	1.2416	1.2375	1.2388	-0.7	1.2404	-0.8	1.2492	-0.9	-
SDR†	-	0.69330	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9987	-	985 - 988	0.9989	0.9985	-	-	-	-	-	-	-
Brazil	(R$)	0.9983	-	981 - 984	0.9984	0.9981	-	-	-	-	-	-	-
Canada	(C$)	1.3693	-0.0018	690 - 695	1.3697	1.3670	1.3691	0.1	1.3694	0.0	1.3722	-0.2	86.4
Mexico	(New Peso)	7.4725	+0.054	700 - 750	7.4750	7.4700	7.634	-25.9	7.819	-18.5	9.5825	-28.2	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.6
Pacific/Middle East/Africa													
Australia	(A$)	1.2477	-0.0046	473 - 481	1.2461	1.2473	1.2497	-1.9	1.2532	-1.8	1.2719	-1.9	95.6
Hong Kong	(HK$)	7.7371	-0.0004	368 - 373	7.7373	7.7367	7.7378	-0.1	7.7396	-0.1	7.7665	-0.4	-
India	(Rs)	34.9250	-0.105	500 - 000	35.1000	34.7500	35.075	-5.2	35.36	-5.2	36.65	-5.5	-
Israel	(Shk)	3.2814	-0.0172	797 - 830	3.3030	3.2467	-	-	-	-	-	-	-
Japan	(Y)	108.285	+0.185	250 - 320	108.340	107.450	107.84	4.9	106.94	5.0	103.2	4.7	136.0
Malaysia	(M$)	2.4995	+0.001	990 - 000	2.5000	2.4961	2.5004	-0.4	2.5065	-1.1	2.53	-1.2	-
New Zealand	(NZ$)	1.4686	-0.0031	680 - 695	1.4695	1.4700	1.4717	-2.5	1.4775	-2.4	1.5021	-2.3	-
Philippines	(Peso)	26.1600	-0.01	400 - 200	26.2200	26.1400	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7504	+0.0001	503 - 505	3.7505	3.7503	3.7506	-0.1	3.7515	-0.1	3.7549	-0.1	-
Singapore	(S$)	1.4080	-0.0017	075 - 085	1.4085	1.4070	1.4044	3.0	1.3984	2.7	1.373	2.5	-
South Africa	(R)	4.3500	-0.01	450 - 550	4.3675	4.3450	4.3875	-18.1	4.4475	-12.6	4.825	-10.9	-
South Korea	(Won)	785.750	-2.2	700 - 800	786.000	785.700	-	-	-	-	-	-	-
Taiwan	(T$)	27.5510	+0.004	760 - 860	27.5560	27.5500	27.586	-0.2	27.591	-0.1	-	-	-
Thailand	(Bt)	25.3250	+0.005	200 - 300	25.3320	25.3040	25.4237	-4.7	25.6275	-4.8	26.51	-4.7	-

† SDR rate per $ for May 31. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 31: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

June 3	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3¼	3¼	3¼	3½	3¾	7.00	2.50	-
week ago	3¼	3¼	3⅜	3½	3¾	7.00	2.50	-
France	3¾	3⅝	3⅞	4	4⅛	3.70	-	5.60
week ago	3⅞	3⅞	3⅞	3⅞	4	3.70	-	5.60
Germany	3¼	3⅜	3⅜	3½	3¾	4.50	2.50	3.30
week ago	3¼	3⅜	3⅜	3¼	3½	4.50	2.50	3.30
Ireland	5⅛	5¼	5¼	5¼	4½	-	-	6.25
week ago	5⅛	5¼	5¼	5⅜	5½	-	-	6.25
Italy	9¼	9¼	8⅞	8¾	8¾	-	9.00	9.25
week ago	9⅛	9¼	8⅞	8⅞	8⅞	-	9.00	9.25
Netherlands	2¾	2⅞	2⅞	2⅞	2¾	-	3.00	3.30
week ago	2⅞	2⅞	2⅞	2⅞	2⅞	-	3.00	3.30
Switzerland	3¼	2⅞	2⅞	2⅞	2¾	5.00	1.50	-
week ago	2⅛	2⅞	2¾	2¾	2¾	5.00	1.50	-
US	5¼	5¼	5½	5¾	6⅛	-	5.00	-
week ago	5¼	5⅛	5⅜	5½	5⅞	-	5.00	-
Japan	½	½	½	⅝	¾	-	0.50	-
week ago	½	½	½	⅝	¾	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅜	5⅝	5⅞	6⅛	-	-	-
week ago	-	5⅜	5½	5⅞	5⅞	-	-	-
US Dollar CDs	-	4.93	5.10	5.33	5.77	-	-	-
week ago	-	4.93	5.05	5.20	5.55	-	-	-
ECU Linked Ds	-	4¼	4⅛	4⅛	4¼	-	-	-
week ago	-	4¼	4⅛	4⅛	4¼	-	-	-
SDR Linked Ds	-	3⅜	3⅜	3⅜	3¾	-	-	-
week ago	-	3⅜	3⅜	3⅜	3¾	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jun 3	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3¼ - 3⅛	3¼ - 3⅛	3⅜ - 3¼	3⅜ - 3¼	[illegible]	[illegible]
Danish Krone	3⅞ - 3⅝	3⅞ - 3¾	3⅞ - 3¾	4 - 3⅞	[illegible]	[illegible]
D-Mark	3⅜ - 3¼	3½ - 3⅜	3⅜ - 3¼	3⅜ - 3¼	[illegible]	[illegible]
Dutch Guilder	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾	[illegible]	[illegible]
French Franc	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3¾	[illegible]	[illegible]
Portuguese Esc.	6⅞ - 6⅝	7⅛ - 7⅛	7⅛ - 7⅛	7⅛ - 7⅛	[illegible]	[illegible]
Spanish Peseta	7⅜ - 7¼	7⅜ - 7¼	7⅜ - 7¼	7½ - 7⅜	[illegible]	[illegible]
Sterling	6 - 5¾	5⅞ - 5¾	6⅛ - 5⅞	6⅛ - 6	[illegible]	[illegible]
Swiss Franc	2⅛ - 2⅛	2⅜ - 2¼	2⅛ - 2⅛	2⅛ - 2⅛	[illegible]	[illegible]
Can. Dollar	4⅞ - 4⅝	4¾ - 4⅝	4⅞ - 4½	4¾ - 4⅝	[illegible]	[illegible]
US Dollar	5⅜ - 5¼	5⅜ - 5¼	5⅜ - 5¼	5½ - 5⅜	[illegible]	[illegible]
Italian Lira	9⅛ - 9⅛	9⅛ - 9⅛	9⅛ - 9⅛	8⅞ - 8¾	[illegible]	[illegible]
Yen	½ - ⅜	½ - ⅜	½ - ⅜	⅝ - ½	[illegible]	[illegible]
Asian $Sing	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.97	95.96	-0.02	95.97	95.94	[illegible]	[illegible]
Sep	95.94	95.91	-0.03	95.95	95.88	[illegible]	[illegible]
Dec	95.82	95.78	-0.05	95.82	95.76	[illegible]	[illegible]

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.67	96.67	-0.01	96.69	96.67	[illegible]	[illegible]
Sep	96.69	96.71	+0.02	96.72	96.67	[illegible]	[illegible]
Dec	96.49	96.52	+0.01	96.53	96.48	[illegible]	[illegible]
Mar	96.20	96.22	-0.01	96.23	96.17	[illegible]	[illegible]

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	91.07	91.14	-	91.17	91.04	[illegible]	[illegible]
Sep	91.71	91.73	-0.01	91.75	91.61	[illegible]	[illegible]
Dec	92.03	92.08	-0.01	92.05	91.93	[illegible]	[illegible]
Mar	92.02	92.05	-0.02	92.06	91.96	[illegible]	[illegible]

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.50	97.47	+0.02	97.55	97.34	[illegible]	[illegible]
Sep	97.39	97.44	+0.05	97.48	97.27	[illegible]	[illegible]
Dec	97.15	97.21	+0.05	97.25	97.05	[illegible]	[illegible]
Mar	96.91	96.93	+0.04	96.96	96.79	[illegible]	[illegible]

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	99.40	99.40	-	99.40	99.39	[illegible]	[illegible]
Sep	99.25	99.24	+0.01	99.25	99.24	[illegible]	[illegible]
Dec	99.01	99.00	+0.03	99.01	99.00	[illegible]	[illegible]

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.58	95.55	-0.02	95.58	95.55	[illegible]	[illegible]
Sep	95.58	95.57	-0.03	95.58	95.55	[illegible]	[illegible]
Dec	95.45	95.44	-0.04	95.48	95.43	[illegible]	[illegible]
Mar	95.28	95.25	-0.04	95.28	95.23	[illegible]	[illegible]

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 3		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.78	16.48	4.864	2.007	4918	5.446	20.79	501.4	409.3	21.39	3.978	2.057	4.362	3.186	344.7	2.573
Denmark	(DKr)	53.24	10	8.771	2.590	1.069	2618	2.899	11.07	266.9	217.9	11.39	2.118	1.095	2.322	1.696	183.5	1.370
France	(FFr)	60.69	11.40	10	2.952	1.218	2985	3.305	12.62	304.3	248.4	12.98	2.414	1.248	2.648	1.934	209.2	1.562
Germany	(DM)	20.56	3.862	3.387	1	0.413	1011	1.120	4.275	103.1	84.14	4.397	0.818	0.423	0.897	0.655	70.87	0.529
Ireland	(I£)	49.82	9.358	8.208	2.423	1	2450	2.713	10.36	249.8	203.9	10.66	1.982	1.025	2.173	1.587	171.7	1.282
Italy	(L)	2.033	0.382	0.335	0.099	0.041	100.	0.111	0.423	10.20	8.323	0.435	0.081	0.042	0.089	0.065	7.010	0.052
Netherlands	(Fl)	18.36	3.449	3.025	0.893	0.369	902.9	1	3.818	92.07	75.15	3.927	0.730	0.378	0.801	0.585	63.29	0.472
Norway	(NKr)	48.09	9.034	7.924	2.339	0.965	2365	2.619	10	241.1	196.8	10.29	1.913	0.989	2.098	1.532	165.8	1.237
Portugal	(Es)	19.94	3.746	3.286	0.970	0.400	980.7	1.086	4.147	100.	81.62	4.266	0.793	0.410	0.870	0.635	68.74	0.513
Spain	(Pta)	24.43	4.589	4.026	1.188	0.490	1202	1.331	5.080	122.5	100.	5.226	0.972	0.503	1.066	0.778	84.22	0.629
Sweden	(SKr)	46.75	8.782	7.703	2.274	0.938	2299	2.546	9.721	234.4	191.3	10	1.860	0.962	2.039	1.489	161.2	1.203
Switzerland	(SFr)	25.14	4.722	4.142	1.223	0.505	1236	1.369	5.228	126.1	102.9	5.377	1	0.517	1.097	0.801	86.68	0.647
UK	(£)	48.62	9.133	8.011	2.365	0.976	2391	2.648	10.11	243.8	199.0	10.40	1.934	1	2.121	1.549	167.6	1.251
Canada	(C$)	22.92	4.306	3.777	1.115	0.460	1127	1.248	4.767	114.9	93.82	4.903	0.912	0.471	1	0.730	79.02	0.590
US	($)	31.39	5.896	5.172	1.527	0.630	1544	1.709	6.527	157.4	128.5	6.714	1.249	0.646	1.369	1	108.2	0.808
Japan	(Y)	29.01	5.449	4.780	1.411	0.582	1427	1.580	6.032	145.5	118.7	6.205	1.154	0.597	1.266	0.924	100.	0.746
Ecu		38.86	7.301	6.404	1.890	0.780	1911	2.117	8.082	194.9	159.1	8.313	1.546	0.799	1.696	1.238	134.0	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kroner per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6520	0.6559	-0.0009	0.6572	0.6559	47,758	75,075
Sep	0.6555	0.6596	-0.0007	0.6607	0.6599	1,549	6,632
Dec	0.6640	0.6646	+0.0003	0.6647	0.6640	16	1,441

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.9306	0.9260	-0.0006	0.9290	0.9260	22,237	74,698
Sep	0.9420	0.9378	-0.0006	0.9410	0.9378	4,383	8,861
Dec	0.9488	0.9510	+0.0004	0.9528	0.9485	177	2,265

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7946	0.8018	+0.0006	0.8039	0.8018	22,688	41,728
Sep	0.7997	0.8079	+0.0009	0.8096	0.8079	1,120	4,789
Dec	0.8148	0.8158	+0.0022	0.8148	0.8146	75	664

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.5386	1.5492	-0.0010	1.5520	1.5466	29,286	66,221
Sep	1.5370	1.5480	-0.0002	1.5504	1.5450	3,304	5,424
Dec	1.5430	1.5490	-0.0042	1.5490	1.5480	15	69

UK INTEREST RATES

LONDON MONEY RATES

Jun 3	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6⅛ - 5	6 - 5⅞	6⅛ - 5⅞	6⅛ - 6	6⅛ - 6⅛	6½ - 6⅜
Sterling CDs	-	-	6⅛ - 5⅞	6⅛ - 6	6⅛ - 6⅛	6⅜ - 6⅜
Treasury Bills	-	-	5⅞ - 5⅞	5⅞ - 5⅞	-	-
Bank Bills	-	-	5⅞ - 5⅞	5⅞ - 5⅞	6⅛ - 5⅞	-
Local authority deps.	5⅞ - 5⅞	5⅞ - 5⅞	6 - 5⅞	6⅛ - 5⅞	6⅛ - 5⅞	6⅜ - 6⅛
Discount Market deps	5⅞ - 5⅞	6 - 5⅞	-	-	-	-

UK clearing bank base lending rate 6 per cent from March 8, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4½

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount on May 31, 5.8344pc. ECGD fixed rate Stg. Export Finance. Make up day May 31, 1996. Agreed rate for period Jun 26, 1996 to Jul 25, 1996, Schemes II & III 7.35pc. Reference rate for period May 1, 1996 to May 31, 1996, Schemes IV & V 6.104pc. Finance House Base Rate 6.5pc from Jun 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.91	93.91	+0.01	93.92	93.90	5815	64893
Sep	93.77	93.80	+0.03	93.81	93.75	14736	88392
Dec	93.54	93.56	+0.02	93.60	93.58	11635	72197
Mar	93.20	93.26	+0.04	93.27	93.18	5266	49283
Jun	92.82	92.86	+0.04	92.90	92.81	2328	38234

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9375	0.17	0.17	0.18	0.01	0.12	0.35
9400	0.03	0.05	0.09	0.12	0.26	0.51
9425	0	0.02	0.04	0.34	0.47	0.71

Est. vol. total, Calls 3954 Puts 659. Previous day's open int., Calls 156060 Puts 127735

EMS EUROPEAN CURRENCY UNIT RATES

Jun 3	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Spain	162.493	161.064	+0.077	-0.88	2.35	6
Netherlands	2.15214	2.14264	-0.00056	-0.43	1.89	3
Belgium	39.3960	39.3467	-0.0201	-0.13	1.58	1
Ireland	0.792214	0.792410	+0.001954	0.02	1.43	-0
Germany	1.91007	1.91415	-0.0012	0.21	1.24	-2
Austria	13.4383	13.4693	-0.0079	0.23	1.22	-2
Portugal	195.792	197.239	+0.174	0.74	0.71	-5
France	6.40608	6.48425	-0.00058	1.22	0.22	-10
Denmark	7.28580	7.39174	-0.00537	1.45	0.00	-10
NON ERM MEMBERS						
Greece	292.867	302.247	-0.416	3.20	-1.69	-
Italy	2106.15	1937.20	+3.75	-8.02	10.00	-
UK	0.786652	0.811487	+0.000849	3.15	-1.65	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	PUTS Jun	PUTS Jul	PUTS Aug
1.490	5.97	-	-	-	0.07	0.09
1.500	4.97	4.94	5.04	-	0.12	0.20
1.510	3.97	4.01	4.18	-	0.20	0.35
1.520	2.98	3.14	3.38	-	0.34	0.56
1.530	2.13	2.40	2.67	0.08	0.51	0.85

Previous day's vol., Calls na Puts na . Prev. day's open int., Calls na Puts na

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.49	94.45	-0.01	94.46	94.44	46,654	357,040
Sep	94.24	94.15	-0.04	94.19	94.14	[illegible]	[illegible]
Dec	93.90	93.78	-0.03	93.81	93.76	172,594	399,870

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

BASE LENDING RATES

[illegible]

ALCOHOLIC BEVERAGES

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER FINANCIAL - Cont.

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PHARMACEUTICALS - Cont.

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		[illegible]		[illegible]	[illegible]	1,804	2.8	Φ
Barlow	♥†	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	–
Gold Flds Prop R		[illegible]	[illegible]	[illegible]	[illegible]	14.0	[illegible]	10.3
MK Props		[illegible]		[illegible]	75	[illegible]	12.8	–
SASOL	♥	[illegible]	[illegible]	710	475	[illegible]	1.8	–
SA Brews		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.9	Φ
Standard Bank	□	[illegible]		[illegible]	[illegible]	2,782	1.7	18.1
Tiger Oats	†	880		1270	825	1,283	2.0	18.8
Tongaat-Hulett		[illegible]		1247	885	[illegible]	2.4	Φ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. *Dividends and Dividend covers are published on Monday*.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV base assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ● Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below
- ※ USM, not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies
- ¶ Price at time of suspension
- § Indicated dividend yield after pending scrip and/or rights issue
- ‡ Merger bid or reorganisation in progress
- § Forecast dividend yield: p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme

a Yield based on annualised dividend.
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
e Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Dividend is paid in whole or part as 0

FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date

Abbreviations:
xd ex dividend.
xc ex scrip issue.
xr ex rights.
xa ex all.
xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

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For readers phoning from outside UK, please dial +44 in place of the first 0.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Tyndall (Bermuda) Ltd

Newport Investment Management

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

Sarasin Funds Mngmt (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

Arab Bank Fund Managers (Guernsey) Ltd

Atlantic Fund Management (Guernsey) Ltd

BZW Asset Management Guernsey Ltd

Bachmann Global Investment Fund Ltd

CIBC Fund Managers (Guernsey) Ltd

IRELAND (SIB RECOGNISED)

LGT Asset Management Ltd

IRELAND (REGULATED)(**)

Dragon Korea Fund Plc

Dynamic Pacific Portfolio Fund Plc

Egerton Capital European Fund Plc

Emerging Dynamic Fund Plc

Emerging Market Growth Fund Plc

F.I.T. Investment Trust Ltd

Falcon Market Fund Plc

Framlington Investment Mngmt (Ireland) Ltd

Frank Russell Investments (Ireland) Ltd

Fresh Korea Fund Plc

GNI Fund Management (Ireland) Ltd

Gartmore Korea Fund Plc

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

Jupiter Tyndall (Jersey) Ltd

Lombard Odier (Jersey) Ltd

Fidelity Funds - Contd.

Schroder International Selection Fd - Contd.

LUXEMBOURG (REGULATED)(**)

FT MANAGED FUNDS SERVICE

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Credit Investment Funds - Contd.

	Selling Price	Buying Price	+ or -	Yield Gross
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars.
Yields % allow for all buying expenses.
Prices of certain older insurance linked plans subject to capital gains tax on sales.
(**) Funds not SIB recognised. The regulatory authorities for these funds are:
Bermuda - Bermuda Monetary Authority
Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland
Isle of Man - Financial Supervision Commission
Jersey - Financial Services Department
Luxembourg - Institut Monétaire Luxembourgeois.
Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price
Buying price - Offer or issue price.
Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:
(W) - 0001 to 1100 hours
(♦) - 1101 to 1400 hours
(▲) - 1401 to 1700 hours
(#) - 1701 to midnight
E - Exit charge on sale of units.
C - Manager's periodic charge deducted from capital.
H - Historic pricing F - Forward pricing
a - Distribution free of UK taxes.
p - Periodic premium insurance plans.
s - Single premium insurance.
u - Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).
x - Offered price includes all expenses except agent's commission.
y - Previous day's price
§§ - Guernsey gross.
◆ - Yield before Jersey tax.
† - Ex-subdivision. xd - Ex-dividend.
‡ - Only available to charitable bodies
φ - Yield column shows annualised rates of NAV increase.

The fund prices on these pages are also available on the internet at www.FT.com

LONDON STOCK EXCHANGE

MARKET REPORT

Equities refuse to shrug off despondent mood

By Peter John

Sterling moved even higher against the D-Mark, government bonds recovered but equities petulantly refused to join the party yesterday.

The London market did shrug off some of the worst excesses of gloom. Also it appeared to ignore the latest UK economic statistics as well as a much feared US purchasing managers' index. However, the FT-SE 100 index still ended the day 8.6 lower at 3,739.2.

On the other hand, some economists were surprised the index did not fall further, considering the background. On Friday, the Dow Jones Industrial Average fell 50 points amid growing concern about inflation, and the possibility that the Federal Reserve might raise interest rates. And, over the weekend, press comment had been unenthusiastic about the UK economy.

At the start of trading yesterday, the Footsie was off almost 18 points. The release of M0 – the main element of which is notes and coins in circulation – signalled a slight pick up in consumer spending.

The M0 figure implied strength in the consumer side of the economy. But it coincided with the latest survey from the Chartered Institute of Purchasing and Supply, which showed that last month manufacturing suffered its biggest slide for more than 3½ years.

The pressures on manufacturing, as shown by reduced output and jobs, lower order books and a build-up of unsold goods, will have been increased by the recent strength of the pound against the D-Mark and dollar.

The strength of sterling and the weakness of manufacturing led at least one economist to raise the possibility of an interest rate cut when the chancellor of the exchequer meets the governor of the Bank of England on Wednesday.

Mr Ian Harnett, the strategist at SGST, argued; "In the past when there has been this imbalance between manufacturing and the services sector rates have been reduced. I think there is a 30 per cent chance of a surprise cut."

The market did, in fact, rally during the morning but its sights were not set on good news and as the time approached for trading to begin on Wall Street, London's nerves began to jangle again.

Afternoon business was patchy with dealers waiting for inflationary signals from the US purchasing managers' survey. Even when those signals did not materialise, the market failed to take heart. Traders merely switched their focus to the potential for discouraging US employment statistics on Friday.

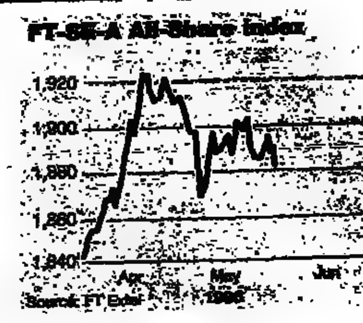
Futures traded at a discount to the cash market all day and share turnover of 644.9m by 6pm had a Monday feeling to it.

Takeover premium was virtually non-existent in the Footsie although most water stocks – particularly Wessex – were up. The only upward momentum came from BT, where the shares rose in response to a lenient regulatory review and contributed almost 5 points to Footsie.

That gain was offset by the effect of stocks going ex-dividend, which knocked 5.4 points off the index.

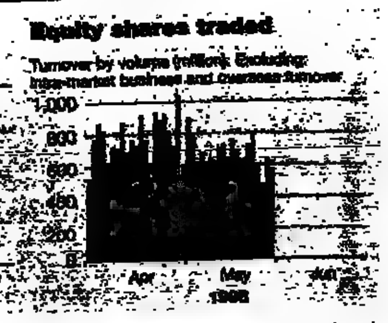
Second-line stocks performed slightly better with the help of a sparkling performance from Eurotunnel. The FT-SE Mid 250 index lost only 4.5 at 4,505.5.

FT-SE-A All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover.



Indices and ratios

FT-SE 100	3739.2	−8.6
FT-SE Mid 250	4505.5	−4.5
FT-SE-A 350	1896.5	−3.8
FT-SE-A All-Share	1882.29	−3.49
FT-SE-A All-Share yield	3.81	3.80
FT Ordinary Index	2777.2	−14.6
FT-SE-A Non Fins p/e	16.84	16.87
FT-SE100 Fut Jun	3735.0	0.0
10 yr Gilt yield	8.07	8.14
Long gilt/equity yld ratio:	2.20	2.22

Best performing sectors

1 Telecommunications .... +1.0
2 Electronic & Elect Equip .... +0.7
3 Water .... +0.5
4 Building Mat & Merchs .... +0.4
5 Distributors .... +0.4

Worst performing sectors

1 Gas Distribution .... −2.0
2 Other Financial .... −0.9
3 Transport .... −0.9
4 Engineering: Vehicles .... −0.8
5 Breweries: Pubs & Rest .... −0.7

BT up on Oftel review

Telecoms shares were in the thick of the action yesterday, following a slew of regulatory news that sent BT shooting higher but left the mobile phone stocks trailing badly.

Oftel's price cap review was seen as favourable for BT with the X factor coming down to 4½ per cent on a regulatory band narrowed from 60 to 25 per cent of the telecom group's revenue. With the market consensus running closer to 5 per cent and 30 per cent, the shares surged from the outset.

Up to 374½p at one stage, BT ended as Footsie's best performer at 368½p, up 13 in turnover boosted to 30m by what was described as a significant two-way pull. BT has had a strong run lately and yesterday's extra bounce sparked "take profits" advice from a number of brokers.

Panmure Gordon moved from "hold" to "sell". ABN Amro Hoare Govett, which increased its estimates of earnings per share growth from 3 per cent to 5 per cent, moved the shares to "overvalued".

Warnings of an Oftel probe into cellular prices, plus a revival of long-running cancer scare stories, hit the mobile phones sector. Vodafone, which puts out annual results today, slid 5¼ to 250p in 14m traded. Securicor A came off 55 to 1173p.

Channel tunnel operator Eurotunnel raced ahead by more than 12 per cent in heavy volume with the shares reaching a 1996 high and breaking through £1 for the first time since November.

The group announced management changes which suggested that, from this autumn, six of the top tier of eight board members would be French. This sparked a surge in volume on the Paris bourse as rumours about an early agreement on debt restructuring resurfaced.

Turnover in Paris raced ahead to 11.4m, and there was also significant arbitrage trade in London where turnover totalled 1.4m shares. The stock closed up 11½ at 105½, the best performer in the FT-SE Mid 250 index.

British Airways took a tumble as the shares went ex dividend. The payment was 10p net, so a decline of 19½ to 541p represented an effective 9½p setback.

Carlton strong

Carlton Communications was one of the day's best performers in the Footsie after the shares added 11 to 495p. Sentiment in the stock was boosted by the stock being included on Panmure Gordon's list of best buys for the coming month. The broker previously rated the shares a "hold".

The combined decline of both the US and UK market exacted a toll of several media related stocks. The list included Pearson where the shares eased 5 to 687p, and Reuters, 3½ lighter at 747p, after trade of 2.9m.

The broker also rates Mirror Group, although shares in the company fell 4 to 215p as investors reflected on the likely impact of The Times reducing its Monday cover price to 10p. Mirror group holds a substantial stake in The Independent, a competitor to The Times.

Standard Chartered moved strongly ahead after NatWest Securities became the latest broker to recommend the stock.

The shares gained 4 to 646p against a poor market trend as 2.9m were dealt. NatWest Securities reiterated its long-term buy stance and raised its current year profits estimate by £30m to £850m. It held the forecast for the following year to £920m.

In the rest of the sector, Barclays were in demand and the shares gained 7 to 758p. The banking group was said to have started a round of meetings with brokers yesterday, ahead of the company's closed season. It reports figures in early August. Analysts were reported to be edging forecasts for the following year upwards from £2.2bn to around £2.4bn although few were willing to confirm their figures yesterday.

Royal Bank of Scotland continued to be boosted by a recommendation from Credit Lyonnais Laing, issued at the end of last week. The shares hardened 5 to 527p.

Bargain hunting at the lower levels saw Abbey National close a penny firmer at 554p.

Shares in pharmaceuticals group Scotia Holdings jumped 34 to 729p, after Lehman Brothers valued the stock at 850p a share.

Analysts at the US investment bank said the group was one of the better buys among UK biotechnology stocks. They added that Scotia's valuation took into account the nearer-term opportunities offered by its diabetic neuropathy and pancreatic cancer products and its photodynamic therapy.

Glaxo Wellcome followed the market lower, closing 3 off at 838p after trade of 4.5m.

However, NatWest Securities favours the stock and yesterday issued a detailed buy note on the shares. NatWest said: "Earnings growth is no longer dependent on cost reductions alone. The launch of a raft of new drugs into the US market is driving up sales growth forecasts."

Tesco, which announced its new ClubCard Plus, dipped a penny to 300¼p, while J Sainsbury fell 2½ to 394p. One analyst suggested that Tesco had stolen the other retailer's thunder.

Dalgety managed to add one penny to 375p despite issuing a profits warning, provoked by the current BSE controversy. Several analysts downgraded their forecasts.

Unigate added 8 to 411p after announcing it had sold its black-eyed pea restaurants in the US.

Thorn EMI rose 28 to 1822p following the announcement that its final results will be published on June 11. Speculation is growing about the group and its plans for demerger.

Stakis fell 3 to 108p following interim results at the low end of forecasts, with analysts disappointed at the performance of its casinos.

Ladbroke, which owns Hilton International, rose 2½p to 192p on speculation that some sort of deal is progressing with Hilton Hotels of the US.

Football stocks jumped on the back of media reports that pay-per-view television could net them substantial amounts of money. Manchester United rose 35 to 400p and Tottenham 51 to 429p.

In the stores sector, Sears lost one penny, to 98¼p. At an early morning analysts' meeting, the company explained the history of its involvement with Facia, to which it sold a number of businesses, and the £25m exceptional provision Sears has made against Facia going into receivership. Most analysts' forecasts were unchanged, although one said there could be a modest downgrade.

Carpetright rose 3 to 613p, with analysts continuing to be optimistic about its prospects when Allied Carpets floats later this year.

Moss Bros rose 58 to 1138p following positive press comment, while W. H. Smith fell 2 to 455p, following press speculation about the outcome of its review of its operations, including Do it All.

Conglomerate Williams Holdings gained 7 to 340p on news of a $13.8m move into Brazil.

FINANCIAL TIMES EQUITY INDICES

	Jun 3	May 31	May 30	May 29	May 28	Yr ago	*High	*Low
Ordinary Share	2777.2	2791.8	2790.3	2806.9	2793.6	2553.7	2885.2	2698.7
Ord. div. yield	4.01	4.00	3.99	3.97	3.98	4.21	4.08	3.76
P/E ratio net	16.11	16.16	16.16	16.28	16.22	15.91	17.25	15.96
P/E ratio nil	15.90	15.94	15.95	16.06	16.01	15.67	17.03	15.76

Ordinary Share index since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2781.1	2776.9	2783.7	2786.3	2783.0	2778.6	2776.5	2775.2	2776.4	2786.0	2773.4

	Jun 3	May 31	May 30	May 29	May 28	Yr ago
SEAQ bargains	35,574	33,026	32,007	33,638	33,936	23,458
Equity turnover (£m)†	–	1664.2	1706.8	2016.7	1305.2	1063.6
Equity bargains†	–	36,722	37,601	41,601	39,912	34,498
Shares traded (mł)†	–	602.5	580.3	640.2	474.3	460.0

†Excluding intra-market business and overseas turnover.

	Jun 3	May 31	May 30	May 29	May 28	Yr ago	*High	*Low
FT-SE AIM	1110.10	1140.40	1096.40	1096.20	1101.10	–	1140.40	985.68

*For 1996.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	555	Total Highs	103	Total contracts	34,738
Total Falls	744	Total Lows	29	Calls	14,260
Same	1,463			Puts	20,478

June 3 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3728.0	3735.0	-	3747.0	3725.0	10991	49804
Sep	3738.0	3741.0	−1.5	3752.0	3733.0	3153	11439
Dec		3769.0	−2.0			0	832

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	4500.0	4490.0	−25.0	4500.0	4500.0	2300	3691
Sep	4539.0	4530.0	−23.0	4540.0	4538.0	2300	450

■ FT-SE 100 INDEX OPTION (LIFFE) (*3738) £10 per full index point

	3550 C	3550 P	3600 C	3600 P	3650 C	3650 P	3700 C	3700 P	3750 C	3750 P	3800 C	3800 P	3850 C	3850 P	3900 C	3900 P
Jun	[illegible]															
Jul	[illegible]															
Aug	[illegible]															
Sep	[illegible]															
Dec†	[illegible]															

Calls 3,131 Puts 11,005

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3575	3625	3675	3725	3775	3825	3875	3925
Jun	[illegible]							
Jul	[illegible]							
Aug	[illegible]							
Sep	[illegible]							
Dec†	[illegible]							

Calls 2,473 Puts 3,318 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
–	F.P.	44.2	108	101	AIM Trust						
100	F.P.	79.6	105	100	Aberforth Smlr C						
–	F.P.	4.33	66	43	Biocompatibles W						
108	F.P.	12.8	126	118	†CA Coutts						
–	F.P.	10.9	109	99	†Carisbrooke						
–	F.P.	38.8	91	36	†Emtech						
–	F.P.	22.5	116	88	†Epic Multimedia						
–	F.P.	22.8	97½	91	Gartmore Select						
–	F.P.	1.38	96	80	†Hercules Prop						
–	F.P.	28.3	101	50	INVESCO E & I C						
–	F.P.	14.6	118	111	†Independent Engy						
–	F.P.	6.30	8½	3¼	†Just Group						
200	F.P.	43.1	295	253	Luminar						
–	F.P.	114.0	280	220	Malden Group						
–	F.P.	38.3	205	165	†Mulberry Group						
–	F.P.	28.8	205	180	†Prism Rail						
190	F.P.	2,088	229	205	Railtrack						
70	F.P.	31.8	125	108	Recognition Sys						
–	F.P.	5.72	98	48	†Reliance						
–	F.P.	24.5	99	96	Renaissance US G						
–	F.P.	18.8	196	96	Schroder Venture						
–	F.P.	–	97	98	Taiwan Inv Tst C						
–	F.P.	25.2	15	7¼	†Thomas Potts						
–	F.P.	2.99	56	48	†Tom Hoskins						
84	F.P.	3.92	95	81	†Whitecroft						

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	May 31	% chg on day	May 30	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	2376.65	+1.6	2340.60	1801.10	1.39	–	2536.83	1722.85
■ Regional Indices								
Africa (13)	3119.26	−0.2	3125.57	2518.80	2.32	42.47	3383.88	2272.74
Australasia (6)	2863.29	+2.8	2803.40	2219.06	2.46	29.87	2927.34	2096.51
North America (12)	2728.48	+2.1	2063.83	1863.24	0.64	73.62	2181.28	1486.64

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FT - SE Actuaries Share Indices — The UK Series

	Jun 3	Day's chge%	May 31	May 30	May 29	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3739.2	−0.2	3747.8	3746.7	3775.7	3376.6	4.04	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Mid 250	4505.6	−0.1	4510.0	4500.0	4514.8	3690.1	3.35	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Mid 250 ex Inv Trusts	4551.4	–	4553.0	4542.5	4555.5	3697.7	3.44	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350	1896.5	−0.2	1900.3	1898.9	1911.7	1678.9	3.88	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350 Higher Yield	1828.0	−0.2	1832.0	1829.4	1841.3	1700.6	5.14	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350 Lower Yield	1972.3	−0.2	1975.9	1975.7	1989.4	1650.4	2.73	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE SmallCap	2229.39	–	2229.72	2228.28	2230.62	1867.32	2.94	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE SmallCap ex Inv Trusts	2228.28	+0.1	2226.73	2225.28	2226.52	1844.73	3.10	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A ALL-SHARE	1882.29	−0.2	1885.78	1884.42	1896.29	1656.47	3.81	[illegible]	[illegible]	[illegible]	[illegible]

■ FT-SE Actuaries All-Share

	Jun 3	Day's chge%	May 31	May 30	May 29	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	[illegible]										
12 Extractive Industries(6)	[illegible]										
15 Oil, Integrated(3)	[illegible]										
16 Oil Exploration & Prod(15)	[illegible]										
20 GEN INDUSTRIALS(275)	[illegible]										
21 Building & Construction(34)	[illegible]										
22 Building Matls & Merchs(28)	[illegible]										
23 Chemicals(23)	[illegible]										
24 Diversified Industrials(19)	[illegible]										
25 Electronic & Elect Equip(37)	[illegible]										
26 Engineering(71)	[illegible]										
27 Engineering, Vehicles(13)	[illegible]										
28 Paper, Pckg & Printing(26)	[illegible]										
29 Textiles & Apparel(20)	[illegible]										
30 CONSUMER GOODS(90)	[illegible]										
32 Alcoholic Beverages(7)	[illegible]										
33 Food Producers(23)	[illegible]										
34 Household Goods(13)	[illegible]										
36 Health Care(20)	[illegible]										
37 Pharmaceuticals(13)	[illegible]										
38 Tobacco(1)	[illegible]										
40 SERVICES(236)	[illegible]										
41 Distributors(32)	[illegible]										
42 Leisure & Hotels(28)	[illegible]										
43 Media(46)	[illegible]										
44 Retailers, Food(15)	[illegible]										
45 Retailers, General(43)	[illegible]										
47 Breweries, Pubs & Rest.(24)	[illegible]										
48 Support Services(40)	[illegible]										
49 Transport(21)	[illegible]										
60 UTILITIES(33)	[illegible]										
62 Electricity(12)	[illegible]										
64 Gas Distribution(2)	[illegible]										
66 Telecommunications(7)	[illegible]										
68 Water(12)	[illegible]										
69 NON-FINANCIALS(658)	[illegible]										
70 FINANCIALS(108)	[illegible]										
71 Banks, Retail(9)	[illegible]										
72 Banks, Merchant(6)	[illegible]										
73 Insurance(23)	[illegible]										
74 Life Assurance(6)	[illegible]										
77 Other Financial(21)	[illegible]										
79 Property(41)	[illegible]										
80 INVESTMENT TRUSTS(128)	[illegible]										
89 FT-SE-A ALL-SHARE(895)	[illegible]										
FT-SE-A Fledgling	[illegible]										
FT-SE-A Fledgling ex Inv Trusts	[illegible]										

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	[illegible]										
FT-SE Mid 250	[illegible]										
FT-SE-A 350	[illegible]										

Time of FT-SE 100 Day's high: 11:06 AM Day's low: 8:49 AM. FT-SE 100 1996 High: 3857.1 (19/04/96) Low: 3654.2 (23/01/96)

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	[illegible]											
Pharmaceuticals	[illegible]											
Water	[illegible]											
Banks, Retail	[illegible]											

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TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
[illegible]			

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 index constituent. All trades are rounded. Source: FT Extel.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 3 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Jun 3 / Frs.)

[illegible]

CZECH REP (Jun 3 / Koruna)

[illegible]

DENMARK (Jun 3 / Kr)

[illegible]

FINLAND (Jun 3 / Mka)

[illegible]

FRANCE (Jun 3 / Frs.)

[illegible]

GERMANY (Jun 3 / Dm.)

[illegible]

GREECE (May 31 / Drachma)

[illegible]

ITALY (Jun 3 / Lira)

[illegible]

NETHERLANDS (Jun 3 / Fls.)

[illegible]

NORWAY (Jun 3 / Kroner)

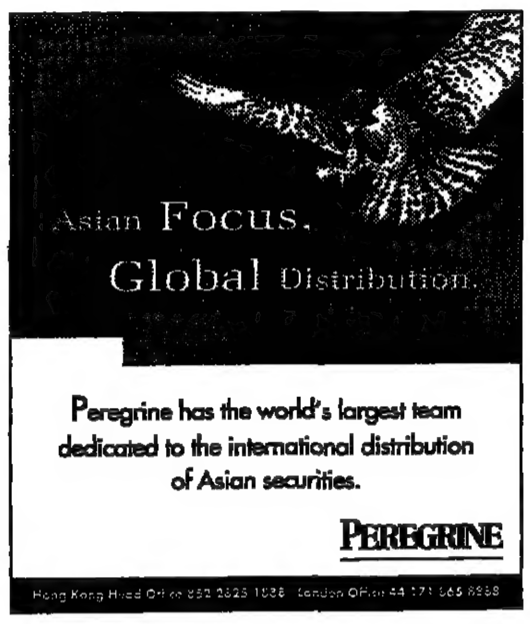
[illegible]

POLAND (Jun 3 / Zloty)

[illegible]

PORTUGAL (Jun 3 / Escudo)

		+/-	High	Low	Yld	P/E
BCO PI	2,043	-2	2,070	1,789	4.9	...
BCPort	1,840	+5	2,140	1,684	3.1	...
BESaat	2,497	-2	2,600	2,220	4.8	...
BancTA	3,050	-31	3,120	2,485	6.2	...
ModCnt	4,030	+27	4,340	3,900	7.5	...
PTelcm	3,735	-84	3,875	2,803	2.4	...
Sonlav	3,990	+11	4,020	3,180	3.8	...
Unicer	2,812	+10	2,980	2,405	3.7	...



SPAIN (Jun 3 / Pts.)

[illegible]

SWEDEN (Jun 3 / Kronor)

[illegible]

SWITZERLAND (Jun 3 / Frs.)

[illegible]

TURKEY (Jun 3 / TL Lira)

[illegible]

PACIFIC

JAPAN (Jun 3 / Yen)

[illegible]

HONG KONG (Jun 3 / H.K.$)

[illegible]

INDONESIA (Jun 3 / Rupiah)

[illegible]

MALAYSIA (Jun 3 / MYR)

[illegible]

NEW ZEALAND (May 31 / NZ $)

[illegible]

SINGAPORE (Jun 3 / S$)

[illegible]

AUSTRALIA (Jun 3 / Aus$)

[illegible]

SOUTH KOREA (Jun 3 / Won)

		+/-	High	Low	Yld	P/E
HyEngC	40,300	+600	41,500	34,700	0.1	...
KorEIP	30,000	-200	33,500	28,000	1.7	...
KPstBk	6,950	-50	8,300	6,250	...	...
KMTelc	750,000	-9,000	838,000	398,000	0.2	...
LG Ele	20,900	-600	27,800	18,900	1.4	...
PohgSt	52,900	-1,300	64,500	45,700	1.8	...
SamEc	72,000	-3,000	111,000	65,100	1.4	...
SampHI	12,700	-400	19,383	13,800	3.6	...
Yukong	25,800	+1,300	28,800	22,800	2.3	...

TAIWAN (Jun 3 / TW $)

		+/-	High	Low	Yld	P/E
CL Ins	171	-1	189	112	0.8	...
CH Bnk	146.50	...	163	93	0.7	...
ChiDev	84	-1	97.50	73	...	...
ChSt	26.80	-.60	27.80	19	5.6	...
FrstBk	143.50	-2	165	94	0.7	...
NYPstc	45.40	-.70	48.50	38	2.5	...
SHK U	113.50	+1.50	134	57	1.3	...
TaiSco	58	-.50	67	58	...	...

THAILAND (Jun 3 / Baht)

		+/-	High	Low	Yld	P/E
Advinf	436	...	510	202	1.1	...
BgkBnk	366	-2	380	310	1.5	...
BgkLnd	32.25	...	45	31.75	1.8	...
DhSiam	163	-4	199	148	...	...
FinOne	133	-6	177	131	2.3	...
KrThBk	130	+1	147	108	2.3	...
LndHou	380	-20	612	372	1.3	...
PhThan	218	-2	268	195	1.7	...
SiamCm	1,384	+18	1,624	1,204	1.4	...
SiamCi	332	-2	424	330	2.4	...
SiamCB	402	-2	430	340	2.2	...
TeleAs	54	-1.50	83	49.50	...	...
ThaiFm	288	-4	324	256	1.9	...

NORTH AMERICA

CANADA

TORONTO (Jun 3 / Can $)
4 pm close

[illegible]

MONTREAL (Jun 3 / Can $)
4 pm close

[illegible]

AFRICA

SOUTH AFRICA (Jun 3 / Rand)

[illegible]

		+/-	High	Low	Yld	P/E
SASOL	43.15	-.15	47.75	28.75	2.0	...
SafRen	12.65	+.15	14.75	11.75	...	...
Samcn	16.50	...	17.10	13.25	...	...
SmithFd	68	+4.50	91	61.50	1.6	...
SmithCG	24.50	-20	30	20	1.5	...
SABrew	132xd	-75	145	110.50	1.5	...
SAmInAm	56	...	67	43	1.2	...
SLife	49.50	+1.50	58	40.50	2.9	...
Stirl	193	-1	202	101	2.4	...
St Hel	26.50	...	34	20	...	...
StandB	158	-1	182	156	...	...
TigOat	58.25	-.50	72	50	1.2	...
TngHul	54xd	-.25	69	52.50	1.7	...
VRects	447	...	480	234	2.8	...
W Area	69.25	+.25	72	59.50	4.5	...
W Deep	198	-2	223	120	2.5	...
Winkih	43	...	44	28	4.7	...

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1996. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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INDICES

	Jun 3	May 31	May 30	1996 High	1996 Low
Argentina					
General(29/12/77)	(u)	18214.80	18398.43	18981.95 20/5	16828.81 19/3
Australia					
All Ordinaries(1/1/80)	2230.2	2286.1	2253.3	2326.00 29/4	2187.40 11/3
All Mining(1/1/80)	1080.0	1085.8	1073.2	1118.40 8/5	1004.70 16/1
Austria					
Credit Aktien(30/12/84)	392.08	394.99	392.28	394.99 31/5	352.76 2/1
Traded Index(2/1/91)	1137.78	1138.86	1129.96	1142.51 28/5	976.27 2/1
Belgium					
BEL20(1/1/91)	1747.76	1753.40	1741.02	1773.28 25/5	1674.80 2/1
Brazil					
Bovespa(29/12/83)	(u)	57280.0	56878.0	57109.90 28/5	43801.09 2/1
Canada					
Metals Minls♦(1975)	(u)	5494.94	5412.14	5824.60 8/5	4667.47 16/1
Composite♦(1975)	(u)	5246.40	5225.38	5259.90 22/5	4739.70 15/1
Portfolio§§(4/1/83)	(u)	2580.17	2582.32	2585.65 27/5	2327.39 12/1
Chile					
IGPA Gen¶(31/12/80)	(u)	5417.19	5386.94	5804.33 8/1	5215.35 8/4
Denmark					
CopenhagenSE(3/1/83)	401.80	402.95	403.43	407.97 28/5	369.40 2/1
Finland					
HEX General(28/12/90)	2054.73	2070.42	2024.24	2078.42 31/5	1651.57 10/1
France					
SBF 250(31/12/90)	1430.26	1445.57	1444.35	1458.82 28/5	1250.16 2/1
CAC 40(31/12/87)	2121.10	2110.06	2108.44	2148.79 30/4	1897.85 11/1
Germany					
FAZ Aktien(31/12/58)	891.25	895.59	891.72	904.93 23/5	818.59 2/1
Commerzbank(1/12/53)	2563.90	2574.1	2582.9	2601.90 23/4	2370.30 2/1
DAX‡(30/12/87)	2532.83	2542.90	2527.31	2570.78 21/5	2284.86 2/1
Greece					
Athens SE(31/12/80)	(c)	924.39	918.73	1017.96 4/3	901.93 29/4
Hong Kong					
Hang Seng(31/7/64)	11069.81	11264.73	11157.07	11594.99 19/2	10204.87 2/1
India					
BSE Sens.(1979)	3799.01	3724.97	3700.82	3869.97 24/4	2828.08 25/1
Indonesia					
Jakarta Comp.(10/8/82)	634.47	617.45	617.24	630.31 24/4	612.48 2/1
Ireland					
ISEQ Overall(4/1/88)	(c)	2532.36	2518.41	2547.39 21/5	2234.81 2/1
Italy					
Banca Comm. Ital(1972)	691.13	688.59	689.14	674.10 20/5	572.21 23/3
MIB General(2/1/95)	1120.0	1133.0	1134.0	1142.00 20/5	970.00 27/3
Japan					
Nikkei 225(16/5/49)	21588.52	21958.19	21896.35	22282.05 24/4	19734.78 13/3
Nikkei 300(1/10/82)	307.61	310.64	309.20	318.05 29/4	284.48 11/3
Topix(4/1/68)	1659.64	1680.57	1673.41	1718.08 29/4	1624.12 13/3
2nd Section(4/1/68)	2198.15	2229.42	2219.09	2243.38 2/5	1962.78 14/3
Malaysia					
KLSE Comp.(4/4/86)	1131.50	(c)	1141.07	1190.54 30/4	989.18 2/1
Mexico					
IPC(Nov 1978)	(u)	3205.51	3260.88	3362.86 22/5	2736.38 8/3
Netherland					
CBS TtlRtnGen(End 83)	646.0	647.2	641.8	647.20 31/5	539.50 2/1
CBS All Shr(End 83)	383.2	383.9	380.8	383.90 31/5	326.70 2/1
New Zealand					
Cap. 40(1/7/86)	(c)	2046.81	2048.01	2203.08 4/1	2042.08 29/5
Norway					
Oslo SE(Ind)(2/1/83)	1429.94	1435.82	1432.12	1444.72 29/4	1259.68 30/1
Philippines					
Manila Comp(2/1/85)	3231.37	3250.26	3268.30	3386.30 30/5	2878.87 2/1
Portugal					
BVL 30(4/1/93)	1892.31	1894.02	1895.69	1895.69 30/5	1602.81 2/1
Singapore					
SES All-S'pore(2/4/75)	585.24	(c)	590.57	610.37 6/2	555.86 2/1
South Africa					
JSE Gold(28/9/78)	2018.8¥	2013.5	2023.8	2638.40 29/5	1348.40 2/1
JSE Ind.(28/9/78)	7965.0¥	7985.8	7884.0	8739.39 25/1	7723.20 20/5
South Korea					
KoreaCmpEx"(4/1/80)	897.22	903.09†	898.56	986.84 7/5	839.87 13/3
Spain					
Madrid SE(30/12/85)	359.57	360.72	361.71	365.01 28/5	323.75 11/1
Sweden					
AffarsvariidenGen(1/2/37)	1972.5	1970.2	1957.5	2005.50 20/5	1706.60 22/1
Switzerland					
Swiss Bk Ind(31/12/58)	1720.27	1724.74	1717.81	1779.84 28/4	1516.19 17/1
SBC General(1/4/87)	1214.12	1217.94	1211.97	1259.89 29/4	1114.47 26/1
Taiwan					
WeightedPr."(30/6/66)	5973.49	5958.82	5882.92	6182.70 29/4	4690.22 6/2
Thailand					
Bangkok SET(30/4/75)	1294.11	(c)	1311.91	1415.04 6/2	1247.79 13/3
Turkey					
Istanbul Cmp.(Jan 1986)	62296.2	61150.4	61941.8	72095.90 8/4	38779.30 2/1
WORLD					
MS Capital Intl(1/1/70)	773.3*	777.4	776.2	780.30 22/5	725.90 15/1
CROSS-BORDER					
Eurotrack 100(26/10/90)	1677.46	1687.06	1676.37	1699.17 28/5	1504.40 11/1
Euro Top-100(26/6/90)	1437.41	1443.14	1437.39	1458.28 28/4	1333.61 11/1
HSBC JC Dgn(31/12/88)	(u)	379.91	378.07	383.16 16/4	344.19 2/1
ING Bngs Emg(7/1/92)	161.88	162.22	161.54	164.14 14/5	147.35 2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
■ CAC-40 (200 x index)							
Jun	2081.5	2100.0	+12.0	2104.0	2080.0	412	51,324
Jul	2100.0	2097.0	+12.5	2099.0	2080.5	242	3,201
■ DAX							
Jun	2515.0	2546.0	+22.5	2549.0	2513.0	16,722	161,439
Sep	2532.5	2565.0	+22.5	2566.5	2532.5	317	7,917
■ OMX							
May	1547.00	1547.50	-2.50	1552.00	1545.00	3,283	16,806
Jun	1555.50	1555.50	-2.25	1555.50	1555.50	20	1,165
■ SOFFEX							
Jun	3520.0	3518.5	-17.5	3528.0	3510.0	3,283	28,508
Jul	-	3520.0	-	-	-	19	2,740

** Sat Jun 1: Taiwan Weighted Price 5988.39; Korea Comp Ex 907.98. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: May 31 - 2523.81 -11.97.

US INDICES

Dow Jones	May 31	May 30	May 29	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5643.18	5693.41	5673.83	5778.00 (22/5)	5032.94 (10/1)	5778.00 (22/5/96)	41.22 (8/7/32)
Home Bonds	101.80	101.58	101.54	108.69 (14/2)	101.19 (8/5)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2228.00	2236.84	2258.11	2298.20 (22/5)	1882.71 (18/1)	2298.20 (22/5/96)	12.32 (8/7/32)
Utilities	209.98	211.85	211.50	234.00 (12/2)	205.42 (7/5)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5712.62 (5734.41) Low 5614.36 (5625.07) (Theoretical♦)
Day's high 5698.21 (5715.58) Low 5636.90 (5644.28) (Actual♦)

Standard and Poors	May 31	May 30	May 29	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	669.12	671.70	667.93	678.51 (24/5)	598.48 (10/1)	678.51 (24/5/96)	4.40 (1/6/32)
Industrials¶	798.29	800.85	794.86	807.32 (24/5)	702.07 (15/1)	807.32 (24/5/96)	3.62 (21/6/32)
Financial	66.73	67.07	66.72	68.86 (5/3)	58.87 (10/1)	68.86 (5/3/96)	8.64 (1/10/74)
NYSE Comp.	358.88	360.24	358.44	363.74 (24/5)	321.41 (10/1)	363.74 (24/5/96)	4.46 (25/4/42)
Amex Mkt Val	610.93	608.41	607.27	614.99 (22/5)	528.05 (18/1)	614.99 (22/5/96)	29.31 (9/12/72)
NASDAQ Comp	1243.43	1233.46	1225.63	1249.65 (23/5)	988.57 (15/1)	1249.65 (23/5/96)	54.87 (31/10/72)

■ RATIOS

	May 31	May 24	May 17	Year ago
Dow Jones Ind. Div. Yield	2.18	2.15	2.17	2.48
	May 29	May 22	May 15	Year ago
S & P Ind. Div. yield	1.88	1.83	1.86	2.21
S & P Ind. P/E ratio	22.98	22.71	21.98	18.77

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Micron	6,623,400	32⅞	-⅛
PepsiCo	3,675,800	33¼	-¼
Checkpoint	3,579,900	38⅝	+6⅛
WalMart	3,367,200	25⅞	+⅛
CocaCola	3,263,400	46	-⅛
LSI Logic	3,220,100	31⅛	+⅜
Motorola	3,045,300	66⅝	+1⅛
Bay Ntwrk	3,018,900	29	—
AT&T	2,633,500	62⅝	-⅜
Tel Brasil	2,271,200	64⅝	+⅛

■ TRADING ACTIVITY

● Volume (million)

	May 31	May 30	May 29
New York SE	350.642	384.153	347.764
Amex	26.532	22.225	22.582
NASDAQ	627.531	625.526	650.192
NYSE			
Issues Traded	3,142	3,160	3,158
Rises	1,071	1,356	834
Falls	1,234	978	1,522
Unchanged	837	826	802
New Highs	68	60	55
New Lows	20	23	26

	Open	Latest	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Jun	673.40	668.10	-1.00	668.10	665.30	81,152	163,092
Sep	672.80	673.80	-1.10	673.80	671.50	4,835	29,819

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
■ Nikkei 225							
Jun	21950.0	21590.0	-420.0	22030.0	21570.0	43,656	264,654
Sep	22030.0	21630.0	-420.0	22110.0	21630.0	29,233	98,889

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Monday, June 3, 1996.

	Stocks Traded	Closing Prices	Change on day
Daiichi Kangyo Bk	13.5m	1,910	-40
Kobe Steel	10.8m	290	-8
Kanematsu Corp	10.5m	617	-83
Bk Tokyo-M'bshi	10.4m	2,550	-10
Kawasaki Hvy Ind	5.8m	565	
Keisei El Rail	4.6m	1,180	
Nagasakiya	4.3m	840	-100
Hitachi Zosen	4.3m	600	+1
Ricoh Co	3.8m	1,070	-20
Nippon Steel	3.8m	362	-5

NEW YORK STOCK EXCHANGE PRICES

4 pm close June 3

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chg'ge Prev. Close
23¾	19⅛	AAR	0.48	2.2	23	180	22⅛	21⅝	21⅝	-½
48⅛	36⅞	AMP	1.00	2.4	20	3545	41⅞	41⅛	41¼	-⅞
97½	69	AMR			23	2326	95	93½	94½	+⅛
50½	37⅞	ASA	1.80	4.0	20	355	45½	44⅞	44⅞	-⅝
44¾	38⅛	AbbtL	0.96	2.3	19	7948	43	42⅜	42⅝	-½
17¼	13⅞	AbitibiPr x	0.40	3.0	6	103	13¾	13½	13½	-⅛
38¼	27	ABM Ind	0.70	1.9	19	67	38	37⅝	37¾	-⅛
17⅜	13⅞	Acptcscla			45	60	u17⅜	17⅛	17¼	-⅛
50⅝	37¾	ACE Ltd	0.56	1.2	11	1898	49	47⅞	48½	-⅞
9⅞	9⅛	ACM Gvt In	0.90	9.2		125	u9⅞	9¾	9¾	
7⅞	6¾	ACM GvOpp	0.57	8.4		13	6⅞	d6¾	6¾	-⅛
7¼	6⅛	ACM Gvt Sp	0.66	10.6		471	6⅜	d6¼	6¼	
9⅛	8¼	ACM Gvt Ss	0.90	10.4		165	8⅝	8½	8⅝	
9½	8¾	ACM Man	0.90	10.0		164	9⅛	9	9	-⅛
30¾	16½	AcmeClv	0.52	1.7	7	2117	29⅞	29¼	29¼	+⅛
13⅞	6⅛	Acme Elect			87	773	12½	11⅞	12⅛	-⅜
32½	27⅞	Acordia x	0.80	2.5	19	13	31⅞	31⅝	31⅞	+⅛
21⅞	12	Acuson			68	782	19¼	19	19	-⅛
19½	18⅜	Adams Expr	1.68	8.6	0	370	u19½	19⅛	19⅜	+¼
21⅛	16⅛	AdvMic			7	2724	17⅝	17⅜	17½	-⅛
11⅛	8½	Advest Grp	0.16	1.5	7	64	10⅞	10⅝	10¾	
26⅛	8⅛	Advo Inc	0.10	0.9	60	1416	11	10⅞	10⅞	
50⅝	41⅛	Aegon	1.23	2.5	14	72	48⅝	48¼	48¼	+⅛
6¾	3½	Aerflx			4	241	6¼	6⅛	6⅛	-⅛
78¾	68⅞	AetnaL	2.76	3.8	19	3839	73⅞	73⅜	73½	-¼
33	28¾	Aflac	0.40	1.3	12	3077	30¼	29½	29¾	-⅜
20⅜	17⅜	AGL Res	1.06	6.0	16	451	17¾	17⅜	17¾	+⅛
26¾	21¼	Ahmson	0.88	3.3	7	8062	26½	½	26⅞	+⅜
60⅞	50⅜	AirPrC	1.10	1.8	16	2807	59½	58¾	59½	

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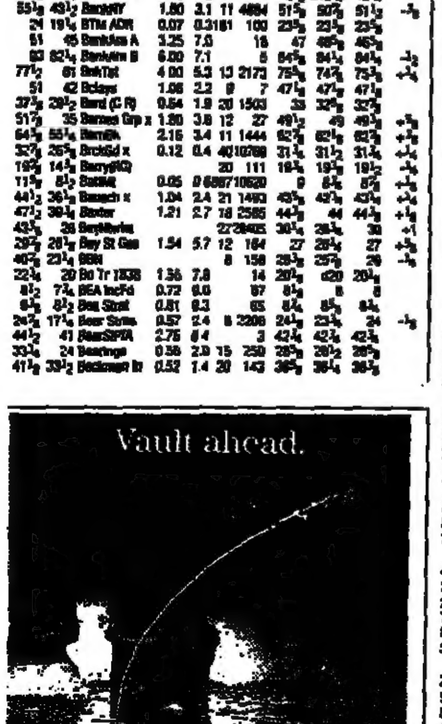

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4 pm close June 3

NYSE PRICES

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Price data supplied by Telekurs

4 pm close June 3

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4 pm close June 3

AMEX PRICES

AMERICA

Volatile bonds lead Dow into further decline

Wall Street

US share prices added to last week's losses in midsession trading yesterday on the heels of a volatile bond market, *writes Lisa Bransten in New York*.

The Dow Jones Industrial Average fell nearly 30 points and the Standard & Poor's 500 lost almost 4 points in the first 15 minutes of trading as the long bond yield hovered over 7 per cent. At mid-morning, however, the bond market was cheered by a set of weak numbers on business activity from the National Association of Purchasing Management. That sent the long bond yield back below 7 per cent and helped shares to recover some of their early losses.

At 1 pm, the Dow was off 14.41 at 5,628.77, the S & P 500 had fallen 1.71 at 667.41 and the American Stock Exchange composite lost 1.60 at 609.33. NYSE volume was 168m shares.

Technology stocks, which had managed to rise last week in spite of the losses in other sectors, were mostly lower. The Nasdaq composite, which is about 40 per cent technology shares, was 1.74 lower at 1,241.69 and the Pacific Stock Exchange technology index lost 0.2 per cent.

Intel, the silicon chip maker which is the second biggest company on the Nasdaq, added $1⅝ at $76⅞, while several Internet-related companies posted losses. Netcom On-line Communication Services slipped $1¼ at $33, Cybercash fell $1⅞ at $57⅞ and PSInet fell $¾ at $14⅞.

Worries about the possibility that the Federal Reserve might raise interest rates caused cyclical shares, which would be disproportionately hurt by such a move, to underperform other sectors. The Morgan Stanley index of cyclical shares was 0.6 per cent lower, while the counterpart index of consumer shares fell 0.1 per cent.

Falling cyclical shares included Caterpillar, off $⅝ at $64⅞, Dow Chemical slipped $⅝ at $83 and Mead shed $1¼ at $52⅝.

HFS added $1¼ or 2 per cent at $63⅛ on reports that the hotel franchising company was in discussions to acquire Avis, the car rental company.

Shares in Cardinal Health, a pharmaceutical distribution company, climbed $1⅞ or 3 per cent to $65⅞ on news that it had signed a tentative agreement to be the exclusive supplier for Kmart pharmacies.

US Steel lost $¼ at $30⅛ after it announced that a furnace problem in Indiana would cut about $100m from second quarter operating profits.

Canada

Toronto was weak at midsession on profit-taking after Friday's gains and the TSE-300 composite index at noon was 12.20 down at 5,234.20 in volume of 49m shares.

Among individual stocks, Sleeman Breweries, the result of a merger between Sleeman Brewing & Malting and Okanagan Springs, was active in its first day of trading. It rose to a high of C$7.50 after opening at C$6.60 and settled at C$7.30 in volume of 1.5m shares.

Nowsco Well Services jumped C$2.45 to C$35.05 in heavy trade on news that BJ Services had increased its bid for the company to C$35 a share. Nowsco is at the centre of a takeover battle between the Houston-based BJ Services and the Indiana-based Great Lakes Chemical Corp.

Arequipa Resources, the gold prospector, rose C$1.35 to C$30.85 in heavy trade.

Gloomy outlook for Light

São Paulo saw a sharp correction in shares of the formerly state-owned Light, on the view that speculative buying ahead of the utility's privatisation on May 21 had left the stock overvalued. The shares dropped 13.1 per cent in early trade before creeping back to stand 9.5 per cent lower at R$297. The Bovespa index lost 1.1 per cent at 56,655 by noon on profit-taking.

MEXICO CITY was pressured by peso weakness and fears of a rise in local interest rates at today's Cetes auction. The IPC index lost 14.71 to 3,190.80.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1996	Start of 1996	Start of 1996
Austria	+1.45	+4.79	+8.38	+18.84	+11.57	+11.36
Belgium	-0.94	+1.56	+17.02	+7.40	+0.70	+0.50
Denmark	-1.24	-0.27	+12.31	+8.72	+2.28	+2.08
Finland	+2.85	+5.02	+5.07	+16.52	+7.41	+7.20
France	-0.28	-0.01	+10.41	+15.48	+8.32	+8.10
Germany	-0.39	+2.54	+18.50	+9.93	+3.21	+3.01
Ireland	-0.10	+1.23	+27.57	+11.81	+10.97	+10.75
Italy	+0.23	-1.29	+3.21	+9.82	+12.80	+12.56
Netherlands	+0.50	+3.80	+30.51	+16.93	+9.73	+9.52
Norway	+1.29	+0.69	+18.39	+12.64	+9.18	+8.96
Spain	-0.63	+1.05	+26.93	+13.08	+6.62	+6.42
Sweden	-0.27	+1.62	+26.03	+14.77	+13.26	+13.03
Switzerland	-0.41	-1.30	+27.79	+7.48	-1.04	-1.24
UK	-0.04	-0.22	+13.04	+2.49	+2.49	+2.29
EUROPE	-0.12	+0.60	+16.76	+6.65	+4.85	+4.64
Australia	+0.16	-1.54	+11.67	+1.63	+9.32	+9.10
Hong Kong	+1.76	+4.29	+19.38	+13.67	+13.82	+13.59
Japan	+1.06	-0.23	+32.58	+5.30	+0.68	+0.47
Malaysia	-0.92	-3.61	+4.55	+13.04	+15.10	+14.87
New Zealand	-1.13	-4.28	-6.02	-5.67	-1.79	-1.98
Singapore	-1.26	-3.76	+4.68	+2.14	+2.70	+2.49
Canada	+0.07	+2.46	+16.42	+11.49	+11.13	+10.91
USA	-1.33	+3.99	+24.91	+8.48	+8.70	+8.48
Mexico	-3.73	+1.15	+61.79	+16.88	+21.64	+21.40
South Africa	+2.74	-0.60	+25.88	+12.57	-5.69	-5.88
WORLD INDEX	-0.32	+1.82	+23.79	+7.91	+5.86	+5.64

† Based on May 31st 1996. © Copyright, FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. 1996. All rights reserved.

EUROPE

Senior bourses reverse losses after late $ revival

A revival in US and French bonds, and a rebound in the dollar allowed **PARIS** to reverse early losses. The CAC-40 index rallied late to close 11.04 higher at 2,121.10, in turnover of FFr4.3bn.

Eurotunnel was strong all day, soaring FFr1.30, or 17.3 per cent, to FFr8.80 on speculation that a debt to equity conversion had been arranged with key bank lenders at a price of FFr10 to FFr12 per share.

Peugeot outperformed the bulk of the automotive sector, rising FFr14 to FFr734. Mr Christopher Will, at Lehman Brothers, upgraded the stock from outperform to buy, with a price target of FFr860 within the next twelve months.

The analyst said that, here and there, the European car market was now looking a little better than expected and the recent fall of the franc against the lira and sterling, was another good omen. Meanwhile, continued speculation on takeover prospects lifted Valeo, the automotive components stock, by FFr5.50 to FFr286.

In financials, Crédit Foncier saw another another sharp fall, losing FFr2.70 at FFr28.60 on a debt downgrade by Moody's, and a decision by Morgan Stanley to take the stock out of its MSCI index.

FRANKFURT was a study in contradictions. A modest recovery in the dollar took it close to its high for the day, as it closed Ibis trading 20.18 higher at 2,543.99. But German stock market turnover was around its lowest for the year at DM5.2bn, down from DM6.5bn last Friday; Mr Hans-Peter Wodniok of Crédit Lyonnais thought this an unhealthy combination.

BMW reflected the dollar, up DM3.90 at DM842.90. But SAP prefs did a lot more, closing DM9.60, or 4.6 per cent higher at DM219.50, good fundamentals coinciding with a turning point on the share price chart. Deutsche Babcock reported losses, foreshadowed more and fell DM2.70 to DM91.50; but Henkel, converted to shareholder value, went ex a DM11.50 dividend and closed, effectively, more than 2 per cent better at DM645.

ZURICH featured a 3.8 per cent fall in Elektrowatt, under pressure from a large sell order and also on fears about possible write-downs in the company's property business. The SMI index gave up 11.5 to 3,544.6 and Elektrowatt dropped SFr18 to SFr454 as the company said that any decisions it made on property market developments would be disclosed tomorrow along with half year results.

FT-SE Actuaries Share Indices

THE EUROPEAN SERIES

Jun 3 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1678.40	1677.94	1677.49	1676.48	1676.50	1676.39	1677.54	1677.48
FT-SE Eurotrack 200	1724.37	1725.74	1724.28	1722.73	1721.74	1721.65	1722.13	1719.12

	May 31	May 30	May 29	May 28	May 24
FT-SE Eurotrack 100	1687.08	1679.37	1692.00	1690.17	1688.85
FT-SE Eurotrack 200	1734.98	1725.50	1732.47	1734.50	1723.61

Base value 1000 (26/10/90); Highday: 100 - 1678.22; 200 - 1726.88 Lowday: 100 - 1676.86 200 - 1719.12. † Partial.

Pharmaceuticals were mostly lower. EMS lost SFr110 to SFr5,090 in further response to a downbeat outlook published last week. Clariant gave up SFr8 to SFr438 on profit-taking.

Baloise, the insurer, gained SFr35 to SDFr2,745 on speculative buying while a SFr4 advance in SMH to SFr859 was attributed to a reassessment of the watchmaker's US business, ahead of Friday's press conference.

MILAN punished Gemina, the financial holding group, after its report, late on Friday, of heavier than expected 1995 losses. The shares dropped L55.5 or 7.9 per cent to L640.5 as the Comit index gave up 7.46 to 661.13 on a day of largely technical trade.

Mediolanum, the life insurance and financial services group formerly owned by Mr Silvio Berlusconi's Fininvest and the chief executive, Mr Ennio Doris, rushed to a high of L15,995 as the shares made their debut in the market. They subsequently settled at L15,805, still sharply up from the L12,000 placement price.

ENI was down L64 at L7,344 on profit-taking after the share's strong rally ahead of its entry into the Morgan Stanley index yesterday. Among other blue chips, Fiat fell L181 to L5,245.

Telecoms were under pressure on expectations that the sector could see switching to Fininvest's Mediaset when it was listed, probably later this month. Stet fell L88 to L5,432.

Shares in Enichem's Montefibre synthetic figures business were suspended pending an announcement expected after the market closed.

AMSTERDAM, closing too early to enjoy the dollar recovery, was underpinned by strong domestic fundamentals which counterbalanced transatlantic influences. Financials held up, and the AEX index closed just 0.89 down at 569.20, after briefly spiking up to a record high of 571.75.

COPENHAGEN fell further as the cleaning group, International Service System (ISS), took its share price tumble into a third day. ISS dropped by DKr13 to a new two-year low of DKr102, more than 37 per cent down since last Thursday's report of irregularities at a US unit which could cost it $100m. The KFX index fell 1.02 to 112.95.

HELSINKI fell as takeover speculation in Nokia appeared to fade and as profit-taking hit the paper machine maker, Valmet, after its New York stock market debut. Nokia dropped FM6.50 to FM199 and Valmet FM1.80 to FM72.20, as the Hex index closed 15.69 lower at 2,054.73.

WARSAW extended Friday's gains in higher turnover which, analysts suggested, signalled a likely end of the market's three week correction.

The Wig index rose 165.3, or 1.4 per cent to 12,060.0 and turnover picked up 12.2 per cent to 95.6m zlotys.

Dealers were unable to explain a 10 per cent jump by Elektromontaz to 4.95 zlotys in hefty turnover of 3.8m zlotys.

TEL AVIV continued to rally from the immediate, post election drop of nearly five per cent that equities sustained last Thursday following the right wing victory in Israel's general elections.

Top shares added a little more, after a recovery of nearly 2 per cent on Sunday. The Mishtanim index closed 0.87 lower at 206.10, as turnover rose from Shk82m to Shk148m. This followed statements by the prime minister-elect, Mr Benjamin Netanyahu, that he would pursue economic growth and stability.

PRAGUE blue chips were sharply lower as investors anxiously awaited the outcome of talks on forming a new government after the indecisive general election vote at the weekend. The PX50 index lost 22.9 or 4.1 per cent to 530.6 as market leaders like Komercni Banka, CEZ and STP Telecom, which feature in the portfolios of most international investors in the Czech market, all fell heavily.

ISTANBUL gave up some of its early gains after the prime minister, Mr Mesut Yilmaz, said that the only alternative to his troubled, 12 week conservative coalition with Mrs Tansu Çiller would be early elections. The IMKB-100 index turned back from a high of 63,519.96 but was still 1,145.82 ahead at 62,296.23.

Written and edited by William Cochrane and Michael Morgan

ASIA PACIFIC

Lender collapse reports sharpen Japanese worries

Tokyo

International worries over the course of US interest rates were exacerbated by domestic reports of the collapse of a non-bank lender and the Nikkei average lost 1.7 per cent, *writes Emiko Terazono in Tokyo*.

The 225 index fell 367.67 to 21,588.52, its low for the day. It hit a high of 21,971.66 in the morning, but soon lost ground on profit-taking by domestic institutions. Share prices accelerated their declines following reports that Shinkyoto Shinpan, a credit company, had gone bankrupt.

Volume totalled 360m shares against 405m. Most institutional investors remained inactive ahead of the Bank of Japan's tankan, or quarterly survey of business confidence, to be released on Friday. The Topix index of all first section stocks lost 21.93 to 1,658.64 while the Nikkei 300 fell 3.23 to 307.61. Declines led advances by 996 to 117 with 102 unchanged.

In London, the ISE/Nikkei 50 index rose 4.94 to 1,453.71.

Individual investors led the selling in the afternoon as the bankruptcy report triggered fears that speculative investors who had borrowed funds from the credit company would sell their shareholdings.

Speculative favourites were sold heavily with Kanematsu, the trading company, losing Y83 to Y617 and Tokai Kogyo, a general contractor, losing Y200 to Y1,140.

Japan Tobacco, the country's sole tobacco company, plunged Y43,000 to Y881,000 on fears of oversupply ahead of its share offerings scheduled later this month. The ministry of finance hopes to sell 272,390 shares which were left over from its first offering in 1994, and the company started offering procedures yesterday

Bank stocks were hit by arbitrage selling. Dai-Ichi Kangyo Bank, the most active issue of the day, fell Y40 to Y1,910 and the Bank of Tokyo Mitsubishi lost Y10 to Y2,650.

Oil refiners and distributors weakened on lower crude oil prices. Nippon Oil fell Y23 to Y692 and Showa Shell Sekiyu declined Y20 to Y1,120.

Profit-taking depressed large capital steels. Nippon Steel fell Y5 to Y362 and Kawasaki Steel lost Y15 to Y385. High-technology blue chips were mixed with Toshiba retreating Y1 to Y750, Sony down Y70 to Y6,800 and NEC up Y10 to Y1,200.

In Osaka, the OSE average fell 262.62 to 23,052.26 in volume of 31.7m shares.

Roundup

The renewed US rate worries dropped **HONG KONG** by 1.8 per cent, and the Hang Seng index finished 204.92 lower at 11,059.81 as turnover shrank to HK$3.7bn.

The fall coincided with a report by ING Barings which concluded that Hong Kong's bull rally had ended and that the market had lost its momentum and direction.

Rate-sensitive banks and property issues were hard hit. HSBC lost HK$1 to HK$116 and Hang Seng Bank fell HK$1.50 to HK$79.25.

SEOUL was sharply lower after the arrest of the head of the Securities Supervisory Board on bribery charges. The composite index closed 10.76 lower at 897.22 as brokers cautioned that a thorough investigation into corruption in the watchdog body could drag in a large number of companies.

Yuyang fell Won3,700 to its lower limit of Won58,800 on news that prosecutors had launched an investigation into the company on suspicions that it might have been involved in the alleged bribery. Wooree Motor lost Won700 to Won11,500 on rumours that it, too was involved.

Against the trend, Hyundai Group shares picked up on expectations that they would benefit from Fifa's decision to allow South Korea to co-host the 2002 World Cup football competition with Japan.

SYDNEY locals took their cue from Wall Street and cut positions across the board, the All Ordinaries losing 35.9 at 2,230.2 in turnover down from A$1.2bn to A$821m.

Big banks suffered most, but there was two way action in the sector as National Australia Bank, a 6.1 per cent shareholder in St George, bought 25 per cent of Metway Bank's preference shares. St George had bid for Metway, and analysts thought that the NAB move was a blocking maneouvre. NAB fell 30 cents to A$11.45 and Metway by 11 cents to A$4.69, but St George rose 25 cents to A$8.45.

KUALA LUMPUR's second board stocks plunged on reports of stricter margin financing requirements, imposed by a leading retail broker.

The Second Board index skidded 20.07 or 4.6 per cent to 417.53, while the composite index dropped 9.57 to 1,131.50.

Analysts said the market was also soured by rumours of speculative funds, which have fed Second Board volumes and prices in recent months, moving to Singapore.

BANGKOK continued to sell on political worries and the SET index fell 17.80, or 1.4 per cent to 1,294.11 in turnover of Bt4.81bn.

KARACHI registered profit-taking in speculative issues on settlement day, and the KSE-100 index dropped 17.31 to 1,721.95.

JAKARTA defied the regional downtrend, the more remarkably since it got its initial lift from foreign buying of large, and medium capitalisation issues, followed through by locals buying second-liners in the afternoon.

The JKSE composite index rose 7.01 to 624.47 after a high of 629.86.

BOMBAY marched 2 per cent higher as investors applauded the appointment of the pro-reform finance minister, Mr Palaniappan Chidambaram, to the new government. The BSE-30 index rose 74.04 to 3,799.01 as some analysts said that the index could climb now to the 3,810 level.

State Bank of India surged Rs20 or 7.1 per cent to Rs301 as it entered a no-delivery period, ahead of its book closure.

S Africa overcomes early dip

Renewed institutional demand helped Johannesburg's industrial shares to overcome an early decline after Wall Street began slightly firmer. The steadier tone coincided with comments by Old Mutual, the insurance giant, which said that the industrial sector's recent pounding, on the back of the slide in the rand, seemed to be over and that equities would remain the channel for institutional investment. The overall index was off 0.4 to 6,818.1, industrials shed 0.8 to 7,985 and golds up 5.3 at 2,018.8.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY MAY 31 1996 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY MAY 30 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (79)	207.32	0.8	198.38	141.67	164.64	172.68	0.5	4.27	205.82	198.64	139.85	163.80	171.89	212.18	182.88	187.35
Austria (25)	194.35	1.4	185.96	132.80	154.34	154.24	1.1	1.82	191.70	185.19	130.39	152.71	152.62	199.28	168.11	193.87
Belgium (27)	210.18	0.6	201.12	143.62	166.91	163.02	0.4	4.08	209.00	201.90	142.15	166.49	162.39	215.81	186.06	194.63
Brazil (28)	170.62	0.3	163.26	116.59	135.49	313.53	0.5	2.07	170.14	164.36	115.72	135.53	312.07	171.06	123.97	134.99
Canada (99)	164.63	0.0	157.53	112.49	130.74	163.45	0.2	2.38	164.66	159.07	112.00	131.17	163.18	164.66	134.14	141.82
Denmark (30)	294.78	0.0	282.06	201.42	234.09	236.65	-0.3	1.89	294.80	284.79	200.51	234.84	237.32	305.17	275.66	280.77
Finland (23)	200.53	3.4	191.88	137.03	159.25	198.64	3.2	2.51	193.92	187.34	131.90	154.48	192.52	276.11	171.73	207.93
France (97)	195.74	0.4	187.29	133.76	155.44	158.94	0.1	3.02	195.03	188.41	132.65	155.37	158.72	198.38	167.70	184.63
Germany (60)	168.61	0.9	161.34	115.21	133.90	133.90	0.5	1.87	167.18	161.50	113.70	133.18	133.18	174.38	153.83	153.83
Hong Kong (58)	440.36	0.9	421.36	300.92	349.72	437.47	0.9	3.25	436.38	421.56	296.80	347.63	433.47	451.19	348.81	369.01
Ireland (16)	282.97	1.5	270.78	193.36	224.72	251.15	0.7	3.41	278.74	269.27	189.58	222.05	249.32	282.97	226.91	226.91
Italy (59)	82.98	0.5	79.39	56.69	65.88	95.91	0.4	2.29	82.57	79.77	56.16	65.78	95.55	84.53	67.22	75.90
Japan (481)	155.66	0.0	148.95	106.37	123.62	106.37	0.5	0.72	155.64	150.35	105.86	123.99	105.88	164.68	137.75	149.95
Malaysia (107)	557.26	0.0	533.22	380.78	442.54	538.23	0.0	1.87	557.04	538.13	378.87	443.75	538.23	585.09	425.77	540.24
Mexico (18)	1257.41	-1.6	1203.16	859.20	998.54	10198.85	-1.9	1.38	1277.98	1234.59	869.22	1018.07	10395.08	1325.65	791.99	935.22
Netherland (19)	298.87	0.9	285.78	204.08	237.18	233.33	0.8	3.08	295.86	285.81	201.23	235.69	231.58	298.67	245.79	247.44
New Zealand (15)	78.06	-0.5	74.71	53.35	62.00	61.02	0.1	4.50	78.43	75.77	53.35	62.48	60.95	85.49	76.26	81.24
Norway (35)	252.00	0.8	241.13	172.19	200.12	223.42	0.4	2.03	250.04	241.55	170.07	199.19	222.47	256.75	221.17	221.54
Singapore (44)	417.38	0.0	399.36	285.19	331.44	271.13	0.0	1.40	417.18	403.02	283.75	332.34	271.13	465.21	355.81	403.30
South Africa (45)	362.67	1.9	347.02	247.81	288.00	345.61	1.5	2.07	356.05	343.97	242.17	283.64	340.47	437.76	338.91	341.37
Spain (37)	175.79	-0.3	168.20	120.12	139.60	171.69	-0.5	3.24	176.29	170.31	119.90	140.44	172.48	179.85	145.15	145.54
Sweden (48)	352.78	1.6	337.54	241.05	280.14	357.44	0.9	2.31	347.27	335.48	236.19	276.64	348.31	356.06	256.60	256.60
Switzerland (38)	233.06	1.0	223.01	159.26	185.08	180.95	0.5	1.64	230.78	222.94	156.97	183.84	180.08	252.34	191.24	195.63
Thailand (46)	180.04	0.0	172.27	123.02	142.97	176.92	0.0	1.86	180.09	173.97	122.49	143.46	176.92	193.95	146.74	170.28
United Kingdom (201)	235.81	1.0	225.64	161.13	187.26	225.64	0.1	4.11	233.38	225.46	158.74	185.92	225.46	237.43	210.29	213.89
USA (627)	272.56	-0.3	260.80	186.24	216.44	272.56	-0.3	2.17	273.50	264.22	186.02	217.88	273.50	276.24	215.77	218.21
Americas (772)	249.09	-0.3	238.35	170.21	197.81	209.40	-0.3	2.16	249.94	241.45	170.00	199.11	210.10	252.40	197.88	199.86
Europe (715)	210.20	0.9	201.13	143.63	166.92	184.42	0.3	3.05	208.40	201.32	141.74	166.01	183.82	211.35	187.00	187.00
Nordic (136)	303.16	1.5	290.08	207.15	240.75	265.60	1.0	2.24	298.73	288.58	203.18	237.97	263.08	303.16	248.36	248.36
Pacific Basin (831)	169.01	0.1	161.72	115.49	134.22	117.79	0.5	1.17	168.81	163.08	114.82	134.48	117.23	177.01	148.86	160.04
Euro-Pacific (1546)	186.07	0.5	178.04	127.14	147.76	143.04	0.4	2.05	185.19	178.91	125.96	147.53	142.47	190.57	165.51	171.17
North America (726)	265.86	-0.3	254.39	181.67	211.13	265.20	-0.3	2.17	266.75	257.70	181.43	212.50	266.07	269.33	211.12	213.47
Europe Ex. UK (514)	191.24	0.8	182.99	130.67	151.87	159.66	0.5	2.47	189.78	183.33	129.06	151.18	158.95	192.67	168.29	168.29
Pacific Ex. Japan (350)	292.73	0.6	280.10	200.02	232.46	252.04	0.5	3.03	291.10	281.22	197.99	231.90	250.86	298.66	243.59	256.82
World Ex. US (1736)	187.41	0.5	179.33	128.06	148.83	147.59	0.4	2.08	186.54	180.21	126.88	148.60	147.00	191.56	167.36	171.79
World Ex. UK (2162)	211.51	0.0	202.38	144.53	167.96	179.21	0.1	1.91	211.45	204.27	143.82	168.45	179.06	213.05	190.73	193.09
World Ex. Japan (1882)	245.78	0.1	235.17	167.94	195.18	232.86	0.0	2.52	245.42	237.08	166.92	195.50	232.95	246.49	205.87	206.47
The World Index (2363)	213.70	0.1	204.48	146.02	169.70	183.57	0.1	2.10	213.45	206.20	145.18	170.04	183.42	214.70	183.83	185.79

Latest prices were unavailable for this edition. Markets closed 31/5/96: Malaysia, Singapore and Thailand.